



D.O. No. 11/86/2013-Recovery

03 DEC 2013

*Dear Sir,*

Please refer to your letter dated 13.09.2012 regarding concern over the decline in financial performance of Public Sector Banks (PSBs) and need for additional equity from tax payers of the country.

2. I have had the matter looked into. It is informed that –

2.1 Rising NPAs in PSBs is a matter of concern. However, it may be appreciated that in a business like lending, a certain proportion of loans is bound to turn out bad. It has to be ensured that banks have sound policies on lending, sound monitoring and surveillance systems, early detection system before a loan becomes sick, measures to take corrective action and if all these measures fail, a recovery mechanism for maximum recovery of the loan amount so as to minimise losses.

2.2 Main reasons for increase in NPAs of banks, inter-alia, are sluggishness in the domestic growth during the recent past, slowdown in recovery in the global economy and continuing uncertainty in the global markets leading to lower exports of various products like textiles, engineering goods, leather, gems, external factors including the ban in mining projects, delay in environmental related permits affecting Power, Iron & Steel sector, volatility in prices of raw material and the shortage in availability of power have impacted the operations in the Textiles, Iron & steel, Infrastructure sectors, delay in collection of receivables causing a strain on various Infrastructure projects.

2.3 To improve the health of financial sector, to reduce the NPAs, to improve asset quality of banks and to prevent slippages, Reserve Bank of India (RBI) has issued instructions that each bank is required to have a loan recovery policy which sets down the manner of recovery of dues, targeted level of reduction (period-wise), norms for permitted sacrifice/waiver, factors to be taken into account before considering waivers, decision levels, reporting to higher authorities and monitoring of write-off/waiver cases. NPA is also reviewed during Annual Financial Inspections of banks and monitored on an ongoing basis through regulatory returns submitted by banks and periodical meetings with banks. Banks have also been advised to review of NPA accounts of Rs. 1 crore and above by Board of Directors and top 300 NPA accounts by Management Committee of the Board, raising of the provision for restructured standard accounts from the existing 2 percent to 5 percent in a phased manner.

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2.4 The Government has advised PSBs to take a number of new initiatives to increase the pace of recovery and manage NPAs, which include appointment of Nodal officers for recovery, to conduct special drives for recovery of loss assets, to put in place early warning system, to replace system of post dated cheques with Electronic Clearance System (ECS). The Government has recently directed all PSBs to constitute a Board level Committee for monitoring of recovery and to monitor the progress of recovery mechanism on a regular basis. Enactment of 'The Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Act, 2012' has also ensured removing of certain bottlenecks in the recovery of bad debts.

2.5 Further, with the objective of revival of entities, conserving valuable financial assets in a downturn and ensuring safety of the funds lent by the banks, banks are permitted to restructure loans to viable entities while treating these as standard assets, subject to meeting regulatory requirements. Under Corporate Debt Restructuring (CDR) mechanism, Corporate, facing temporary problems due to mismatch in their cash flows, are given extended time of repayment with reduction in rate of interest depending upon their cash flows.

3. In 2012-2013, PSBs made a provisioning of Rs. 71,334 Crore. Banks provided about Rs. 37,000 crore for recapitalization out of their own funds. Government provided Rs. 12,517 crore. During the year 2013-14, Government has approved infusion of Rs. 14,000 crore, the rest of the money will be arranged by the banks from other sources.

4. The steps taken by the RBI and the Government have resulted in improvement in recovery of NPAs. The recovery of NPA by Public Sector Banks has increased from Rs. 9,911 crore (March 2010) to Rs. 14,122 crore (March 2011), Rs. 17,272 crore (March 2012) and Rs. 20,050 crore (March 2013). The Profit after Tax (PAT) of the PSBs have also increased from Rs. 36,262 crore (March, 2010) to Rs. 41,492 crore (March, 2011), Rs. 44,713 crore (March, 2012) and Rs. 45,850 crore (March 2013).

*With regards,*

Yours sincerely,

  
( Namo Narain Meena )

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