IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative

Government’s Plan on Loan Write-off

Why in news?

\n\n

Union government had written-off the NPA’s from books of public sector banks.

\n\n

What is the status of NPA’s recovery in India?

\n\n

\n
- India ranks 103rd in the world in bankruptcy resolution, with the average time taken to resolve a case of bankruptcy extending well over four years.
\n
- Banks in India are able to recover on an average only about 25% of their money from defaulters and also been lenient in collecting their dues from defaulting borrower.
\n

\n\n

What is the idea of write-off about?

\n\n

\n
- A write-off is technically different from a loan waiver in which the borrower is exempted from repayment.
\n
- This does not mean banks will manage to collect the dues from defaulting borrowers.
\n
- Banks prefer to never have to write off bad debt since their loan portfolios are their primary assets and source of future revenue.
\n
- However, loans that cannot be collected or are unreasonably difficult to

collect reflect very poorly on a bank's financial statements and can divert resources from more productive activity.
\n

- Banks use write-offs, which are sometimes called "charge-offs," to remove loans from their balance sheets and reduce their overall tax liability.
\n

\n\n

What is the decision of government on write-off?

\n\n

\n

- Non-performing assets (NPAs) worth Rs.2.41 lakh crore have been written off from the books of public sector banks between April 2014 and September 2017.
\n
- Since the banks were able to recover only 11% of the distressed loans worth Rs.2.7 lakh crore within the stipulated time, the rest had to be written off as per regulations.
\n
- The government, however, clarified that the defaulters will have to pay back the loans, though they were written off.
\n

\n\n

What is the need behind this move?

\n\n

\n

- Instead of classifying sour loans as troubled assets and taking action to recover them, banks have often chosen to hide such assets using unethical accounting techniques.
\n
- Reserve Bank of India has been stepping up efforts to force both private and public sector banks to truthfully recognise the size of bad loans on their books.
\n
- This caused the reported size of stressed assets to increase manifold in the last few years.
\n
- Many large corporations, as well as smaller enterprises, have been admitted to undergo liquidation under the IBC so that the proceeds can be used to pay back banks.

\n

- As of now the quick resolution of bad loans will free resources from struggling firms and hand them to the more efficient ones.
\n

\n\n

\n\n

Source: The Hindu

\n