

WHAT IMF SAYS

Bank recap should be part of broader reforms

PRESS TRUST OF INDIA
Washington, 11 March

The International Monetary Fund (IMF) has said the recapitalisation of India's public sector banks (PSBs) should be part of a broader package of financial reforms to speed up the resolution of their massive non-performing assets (NPAs), which has attracted attention against the backdrop of the Nirav Modi case.

The recent policy reforms to address vulnerabilities in the banking and corporate sectors in India have been significant, IMF Deputy Managing Director Tao Zhang said ahead of his visit to India.

Zhang is travelling to India and Bhutan from March 12 until March 20.

The asset quality review, initiated by the RBI in December 2015, prompted banks to take steps to recognise all NPAs and ensure appropriately provisioned balance sheets by March 2017. Other important steps include the Insolvency and Bankruptcy Code, adopted in May 2016; and more recently, the announcement of a major recapitalisation of PSBs, he said.

According to a recent Assocham-CRISIL study, India's banking sector will

be saddled with gross non-performing assets worth ₹9.5 trillion by March-end, up from ₹8 trillion a year ago.

"While all are welcome steps, we think the PSB recapitalisation should be part of a broader package of financial reforms to speed up the resolution of NPAs, improve PSB governance, reduce the role of the public sector in the financial system, and enhance bank lending capacity and practices," Zhang said.

Zhang, however, did not respond to specific question related to the

case of Indian diamond merchants Nirav Modi and his uncle Mehul Choksi, who are being investigated for their alleged \$2

billion swindling of money from Punjab National Bank. "We have seen the reports. As a matter of practice, we do not comment on the operations of individual financial institutions. In general terms, what I can say is that we support the authorities' ongoing efforts to strengthen the soundness and resilience of India's financial system," he said.

A team of experts recently conducted an assessment in the context of India's participation in the IMF/World Bank Financial System Stability Assessment Programme, he noted.



'Bank recap should be part of broader reform package'

Economic growth prospects remain positive: IMF's Zhang

PRESS TRUST OF INDIA
WASHINGTON

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dled with gross non-performing assets (GNPAs) worth a staggering ₹9.5 lakh crore by March-end, up from ₹8 lakh crore a year-earlier.

"We think the PSB recapitalisation should be part of a broader package of financial reforms to speed up the resolution of NPAs, improve

PSB governance, reduce the role of the public sector in the financial system, and enhance bank lending capacity and practices," Mr. Zhang told PTI in an interview.

Note ban effect waning

He added the Indian economy now seemed to be on its way to recovering from disruptions caused by demonetisation and the roll-out of the goods and services tax.

"With the economy expanding by 7.2% in the latest quarter, India has regained the title of the fastest-growing major economy, Mr. Zhang said.

Calling this development a 'welcome change', Mr. Zhang said the growth prospects remained positive.

IMF: PSB recapitalisation should be part of broader package of financial reforms

PRESS TRUST OF INDIA
WASHINGTON, MARCH 11

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The recent policy reforms to address vulnerabilities in the banking and corporate sectors in India have been significant, IMF Deputy Managing Director Tao Zhang said ahead of his visit to India. The asset quality review, initiated by the Reserve Bank of India (RBI) in December 2015,

India's economy seems to be on its way to recovering from disruptions caused by note ban and the roll-out of GST, said IMF Deputy MD Tao Zhang

prompted banks to take steps to recognise all nonperforming assets and ensure appropriately provisioned balance sheets by March 2017. Other important steps include the new Insolvency and Bankruptcy Code, adopted in May 2016; and more recently, the announcement of a major recapitalisation of India's PSBs, he said.

According to a recent Assocham-Crisil study, India's banking sector will be saddled with gross non-performing assets (GNPAs) worth a staggering Rs 9.5 lakh crore by March-end,

up from Rs 8 lakh crore in the year-ago period. "While all are welcome steps, we think the PSB recapitalisation should be part of a broader package of financial reforms to speed up the resolution of NPAs, improve PSB governance, reduce the role of the public sector in the financial system, and enhance bank lending capacity and practices," Zhang told *PTI* in an interview.

Zhang, however, did not respond to specific question related to the case of Indian diamond merchants Nirav Modi and his

uncle Mehul Choksi, who are being investigated for their alleged \$2 billion swindling of money from the Punjab National Bank.

"Nevertheless, the experts recommended legal changes to enable the RBI to extend all the powers currently exercised over private sector banks to public sector ones; in particular, regarding Board member dismissals, mergers, and license revocation," he said. Meanwhile, he said on Sunday that the country's economy now seems to be on its way to recovering from disruptions caused by demonetisation and the roll-out of goods and services tax. The IMF has also underscored the significance of reforms in other key sectors like education, health and improving the efficiency of the banking and financial systems.

PSB recapitalisation should be part of broader package of financial reforms: IMF

LALIT K JHA

Washington

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"While all are welcome steps, we think the PSB recapitalisation should be part of a broader package of financial reforms to speed up the resolution of NPAs, improve PSB governance, reduce the role of the public sector in the financial system, and enhance bank lending capacity and practices," Zhang said.

A team of experts recently conducted an assessment in the context of India's participation in the IMF/World Bank Financial System Stability Assessment Program (FSAP), he noted.

"The experts found that the RBI has made progress in strengthening banking supervision since

the previous assessment in 2011. For instance, a risk-based supervisory approach has been introduced and Basel III norms have been implemented, as is now increasingly common around the world," Zhang said. "Nevertheless, the experts recommended legal changes to enable the RBI to extend all the powers currently exercised over private sector banks to public sector ones; in particular, regarding Board member dismissals, mergers, and license revocation," he said.

"Having said that, banks' operational risk management, risk culture, internal control frameworks and external audit function should typically play a central role in preventing fraud," Zhang said. —PTI

