

RBI ex-deputy governor: Banks to remain important lenders for infrastructure financing

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DESPITE THE present day cynicism, Anand Sharma, former deputy governor of the Reserve Bank of India (RBI), felt that banks would continue to be the major providers of finance for development. Sharma was speaking at the national summit organised by ASSOCHAM on infrastructure finance at NIBM in Pune on Tuesday.

"India is a bank-dominated economy and banks are a critical source of funding. Academic literature does suggest that even though banks have tremendous problems in financing infrastructure because of the asset liability questions, they are perhaps the best vehicles for infrastructure. The reason is that the execution risk is extremely high in the construc-

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tion phase and it may require rescheduling of asset guarantee and that can happen with bank finance rather than bond finance," he said.

Infrastructure has come to occupy a central place in the economic endeavors, Sharma said.

"I am therefore coming back to bank finance. I don't see bank finance receding in a big way because banks are the best institutions to deal with in the construction phase," he said.

Asset quality has certainly become a problem with public sector banks when it comes to infrastructure funding, he added. "The reasons are the exuberant lending from 2006 to 2012 in the boom period before the global financial crisis. Infrastructure being national priority, a lot of funding went into that. There were external factors too, like undue delays in environment clearances and policy paralysis. Fear of oversight by investigative agencies is one of the reasons. If you look

at the fiasco that has happened, apart from overconfidence, lax appraisal and monitoring, the absence of bankruptcy code is also responsible," Sinha said.

"The Non Banking Financial Company (NBFCs) are also growing and there are NBFCs specialising in finance infrastructure. There are also certain sector-specific NBFCs bank finance to infrastructure has grown rapidly in the last 15 years. The outstanding bank credit to infrastructure stood at Rs 95 billion in 2001, and increased to Rs 9,853 billion in 2016 at a compound annual growth rate of 29 per cent," he said.

Since banks remain the major suppliers of infrastructure finance, it is time to consider whether there is a need for alternate credit system away from consortium multiple banking finance, Sharma added.