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

EXPRESS NEWS SERVICE
PUNE, JANUARY 30

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 seminar organized by ASSOCHAM on infrastructure finance at RBI 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," he said.

Infrastructure has come to occupy a central place in the economy, 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 fiscal that has happened, apart from overconfidence, lax appraisal and monitoring, the absence of bankability risk is also responsible," Sharma said.

The Non Banking Financial Company (NBFCs) are also growing and they are NBFCs specializing in finance infrastructure. There can also be asset specific NBFCs, Sharma said. NBFC infrastructure has grown rapidly in the last 10 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 alternative credit system away from consortium multiple banking finance, Sharma added.