

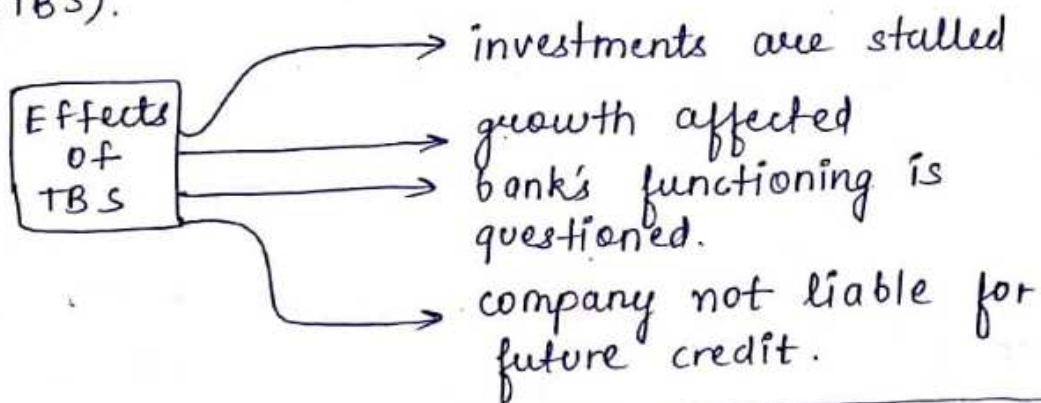
Q. of What is Twin Balance sheet Syndrome?
Enumerate steps taken by RBI to solve it. (250 words).

Ans. of **TWIN BALANCESHEET SYNDROME :-**

Banks lend to companies but when companies are not able to repay their loans, it not only affects banks but companies too.

This is observed in balancesheet of both banks & companies which are stressed.

This is called Twin Balancesheet Syndrome. (TBS).



STEPS TAKEN BY RBI TO SOLVE T.B.S.

① Prompt Corrective Action (PCA).

RBI takes certain actions when risk thresholds are breached. These actions can be -

- halting branch expansion.
- special auditing
- cap on bank's lending to a sector.
- stopping dividend payment of banks.

② Basel Norms :-

Banks lend to industries by depositor's money. To meet the depositor's obligation & ~~minimise~~ stop misuse of money, banks are required to keep certain amt. as security against risk of non-recovery. RBI imposes ^{CAR (Capital Adequacy Ratio) of} $\bar{12\%}$ on all banks which is highest than prescribed (8%).

③ Strategic Debt Restructuring :-

RBI can also banks to fully or partially convert the loans to equity shares. This allows banks to control management of company who has defaulted.

④ Asset Reconstruction Companies :-

To make banks free from liquidation of stressed assets / NPAs, ARCs fulfill this task. It buys these NPAs from banks thus preventing banks to go to DRT / NCLT. This helps banks to focus on their banking activities. more.

⑤ Formation of PARA :-

PARA (Public Sector Asset Rehabilitation Agency) can be a cornerstone which can buy all the bad loans of Public sector banks.

It should be noted that most of the NPAs are accumulated in PSBs. By formation of PARA which can act as 'bad bank', it can help solve TBS.

Delay in economic reforms can creep the growth of economy which is undesirable. TBS, just like NPA, is also a burning issue in banking sector. Intervention by RBI is most crucial which can help solve this issue.

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