



POCKET MONEY

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Brief on what they kept from you about your money this week.

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01

RBI to allow banks to fund mergers and acquisitions? Who will bear the risk?

The RBI proposes to “provide an enabling framework for Indian banks to finance acquisitions by Indian corporates,” i.e. allow direct or indirect funding by banks for corporate takeovers. So far Indian banks are generally restricted from directly financing the acquisition of corporate equity shares for the risk of misuse of bank credit to fund risky takeovers. Thereby, so far companies had to rely on alternative methods, such as using their own funds or arranging share swaps, to finance takeovers. This major shift yet again opens the banking system to the looming threat of NPAs and risky speculations. If banks fund acquisitions of promoters / related parties, there is a scope for misuse and underhand deals. It may lead to a party acquiring assets or companies with weak fundamentals using cheap debt, leading to default risk. The acquirer might just overleverage, and subsequent failure of the company can lead to NPAs. Moreover, if banks’ due diligence is weak (or deliberately distorted), they may end up financing speculative or non-viable takeover bids. In merger and acquisitions, valuation is always tricky. There are always chances of hidden liabilities, regulatory or environmental risks that might emerge after takeover putting the bank's money at risk.

02

RBI throws caution to the winds in large lending?

When will we ever learn? It is after all the reckless lending of the 2000s that landed us in the NPA soup. This had put the burden of massive write offs of lakhs of crores on the ordinary people who have been denied of affordable credit. And now once again it seems we are throwing caution to the winds. The RBI proposes to withdraw the 2016 framework that discouraged lending to very large borrowers (with ₹10,000 crore+ credit exposure). This could make banks more willing to lend big amounts to India's largest business groups. While Large Exposure Framework limits risk within each bank, but not across the entire banking system. If many banks lend heavily to the same big corporate group, the system as a whole could still be over-exposed. Banks might feel pressure (from promoters or government-linked entities) to roll over or extend new loans to already large borrowers, instead of pushing them to reduce leverage. This could hide stress or delay recognition of bad loans. Also banks may prefer lending to a few large, well-known companies rather than many smaller ones that require more due diligence.

03

RBI opening the gates of foreign borrowing for crooks?

RBI has proposed to revamp its rules on external commercial borrowings opening the floodgates for foreign lending. So much so that firms under insolvency or restructuring, or even those under investigation, may borrow subject to disclosure to their banks. Any person residing abroad, along with offshore branches could borrow as per this reform. Does this mean that crooks and those who are undergoing investigations would be again eligible for borrowing? Is this in a round about manner a way to give business and leverage to those under investigation for playing with public money? If a company under NCLT and resolution borrows in this manner and then either due to currency depreciation or interest cost shock it fails, this would surely undermine the resolution process. Also, the firm might use the borrowed funds to service foreign obligations first, or to restructure some parts of business, leaving domestic creditors with even lower recoveries than the IBC already allows for.

04

Wayanad women win loan waiver appeal in court

The Women for Loan Relief, a collective of women affected by the Chooralmala–Mundakkai disaster in Wayanad last year, have achieved a significant victory in court. We had noticed earlier how the Kerala Bank had written off the loans responding to the plight of the people while the central government in a deplorable move had amended the disaster management law in a way that disallows such write-offs. Maju Varghese and Sarath Cheloor wrote that "with thousands of homes and agricultural lands damaged, people were in a precarious situation when loan agents approached those living in relief camps to recover EMIs for loans they had taken." Responding to the legitimate demand of the women of Wayanad the Kerala High Court expressed deep disappointment at the Union Government's refusal to waive loans taken by victims. The Center merely filed an affidavit stating that the 2018 RBI guidelines on relief during natural calamities did not permit loan waivers and that banks were independent in their commercial decisions. The court said the Center's inaction amounted to a failure of its duty toward the disaster victims, many of whom had lost their homes and land mortgaged for loans. However, respecting the separation of powers, the court refrained from directing the Center to announce a waiver. Instead, it ordered the 12 major banks to suspend all recovery proceedings against the Wayanad landslide victims until final disposal of the case. The banks were asked to state whether they would waive the loans or give justification in their counter-affidavits as to why not. The case is of immense significance at a time when increasing climate disasters demand climate sensitive banking practices.

05

Maharashtra's Floods and the Growing Plight of Farmers

Maharashtra's devastating floods once again reveal the widening gap between climate realities and state preparedness. Unseasonal and excessive rains submerged 31 districts, destroying crops over nearly 69 lakh hectares and pushing thousands of farmers into fresh distress. Yet, damage assessment surveys and compensation processes remain painfully slow, forcing farmers to rely on informal credit and depleted savings. The government's ₹31,628 crore relief package offers limited solace when compared to the scale of loss. Such climate extreme events that are rampant across the states today - from Punjab to Rajasthan, from Himachal to Maharashtra - need climate sensitive banking and credit support including loan write offs and moratoriums.

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