# Firm performance when banks receive forbearance while restructuring debt

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**Abstract**

During times of systemic banking stress, regulators encourage banks to restructure stressed debt contracts by offering forbearance in declaring these as non performing assets. This paper studies the impact of such restructuring on the performance of firms in India, when such forbearance was permitted. The analysis uses a matched difference-in-difference study with 135 firms between 2003 and 2015 whose loans were restructured against a control sample of firms with similar levels of stress but whose debt was not restructured. The results indicate that the treated sample did not perform better, even upto five years after the restructuring. This suggests that banks use restructuring to postpone the recognition of impaired assets rather than to preserve economic value of the enterprise in distress.

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