CORPORATE DEBT RESOLUTION AND ECONOMIC INEQUALITY IN TAMIL NADU - AN ADVANCED ECONOMIC IMPACT ASSESSMENT OF LOAN HAIRCUTS, FINANCIAL LOSSES, MORAL HAZARD, RESOURCE MISALLOCATION AND THE POLITICAL ECONOMY OF INSOLVENCY

Dr. G. YOGANANDHAM, Professor & Head, Department of Economics, Thiruvalluvar University (A State University), Serkkadu, Vellore District, Tamil Nadu, India- 632 115.

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Abstract

This study critically examines the complex implications of corporate debt resolution and its influence on economic inequality in Tamil Nadu. Focusing on mechanisms such as loan haircuts, financial losses, moral hazard, resource misallocation, and the political economy of insolvency, it assesses their impact on industrial sectors, employment, household welfare, and regional growth. Utilizing secondary data from institutions like RBI, IBBI, and government sources, the analysis highlights how delayed insolvency processes, excessive haircuts, and political interference can exacerbate financial losses, resource inefficiencies, and social disparities. The study employs econometric models to quantify the relationships between debt resolution outcomes and economic inequality, emphasizing the importance of transparent valuation, promoter accountability, and accelerated resolution mechanisms.

Findings suggest that while effective insolvency frameworks like the IBC have improved recovery rates and resource reallocation, challenges such as delays, high haircuts, and moral hazard continue to hinder inclusive growth. The research underscores the need for policy reforms that strengthen early-warning systems, promote market-based valuations, and reduce political influence to balance financial stability with social equity. Ultimately, the paper advocates for a holistic approach integrating institutional capacity, transparent procedures, and social safeguards to foster resilient and equitable economic development in Tamil Nadu through sustainable corporate debt resolution. Within this framework, the study examines major emerging challenges that are progressively influencing the complex and interconnected global landscape of the contemporary era.

Keywords: **Corporate Debt, Economic Inequality, Loan Haircuts, Social Equity, Moral Hazard, Political Economy, Inclusive Growth, Institutional Capacity and Financial Stability.**

The theme of the article

Corporate debt resolution is a critical issue that affects the economic stability and growth of Tamil Nadu, one of India's most industrialized states. When companies face financial distress or insolvency, it can lead to significant losses for banks, workers, suppliers, investors, and the government. Resolving such distressed debts efficiently is essential to prevent resource wastage, protect employment, and ensure sustainable economic development. However, the process of debt restructuring and insolvency involves complex challenges, including financial losses, moral hazard, resource misallocation, and increasing economic inequality. In Tamil Nadu, industries like textiles, manufacturing, automobiles, leather, and MSMEs are closely linked with banks and supply chains. When companies go bankrupt or undergo debt restructuring, it can disrupt these linkages, leading to job losses and reduced household income, especially for low-income groups.

Large loan haircuts, while sometimes necessary to save viable firms, can transfer financial burdens to banks and taxpayers, creating moral hazard, where promoters take undue risks expecting bailouts. This study aims to analyze the economic impact of corporate debt resolution in Tamil Nadu, focusing on issues like financial losses, resource misallocation, and social inequality. It also examines the role of legal and institutional frameworks, such as the Insolvency and Bankruptcy Code (IBC), in improving debt resolution processes. By understanding these dynamics, policymakers can develop strategies that promote fair, transparent, and efficient resolution mechanisms. The ultimate goal is to foster a resilient economy that balances the interests of all stakeholders, reduces inequality, and supports inclusive growth in Tamil Nadu.

Statement of the problem

In Tamil Nadu, corporate debt distress and insolvency pose significant challenges to the economy. When companies face financial difficulties, they often delay repayment, reduce wages, lay off workers, or even shut down, leading to job losses and economic hardship for households. The process of resolving distressed debt through restructuring or liquidation can also cause financial losses for banks, creditors, and taxpayers. Excessive loan haircuts and delays in insolvency resolution can result in the misallocation of resources, as unproductive assets remain idle and inefficiencies persist in the economy. Moreover, the influence of political and corporate interests can distort decision-making, leading to unfair treatment and increased inequality.

The current mechanisms for debt resolution, such as the Insolvency and Bankruptcy Code (IBC), have improved transparency and recovery outcomes but still face challenges like delays, high haircuts, and moral hazard. These issues not only hamper economic growth but also deepen social inequalities by transferring losses to weaker sections of society. Therefore, there is an urgent need to understand how corporate debt resolution impacts economic inequality, resource allocation, employment, and social welfare in Tamil Nadu. Addressing these issues requires developing effective policies that ensure faster, fairer, and more transparent resolution processes, protect employment, and promote inclusive growth. The goal is to balance financial stability with social equity, ensuring that the costs of corporate failures do not disproportionately burden the vulnerable and underprivileged sections of society. Against this backdrop, the study investigates critical emerging challenges that are increasingly shaping today's complex, dynamic, and interconnected global environment.

Objectives of the article

The overall objective of the article is to analyze the challenges and impacts of corporate debt resolution in Tamil Nadu, focusing on economic inequality. It aims to assess how loan haircuts, financial losses, moral hazard, resource misallocation, and insolvency influence the economy and society. The study seeks to evaluate the effectiveness of current policies and institutional mechanisms in resolving stressed assets. It also aims to identify the link between debt resolution and income inequality among different social groups. By providing evidence-based insights, the article intends to recommend strategies for promoting inclusive and sustainable economic growth in Tamil Nadu with the help of secondary sources of information and statistical data pertaining to the theme of the article.

Methodology of the article

The study adopts a descriptive and analytical research design to examine the economic and social impacts of corporate debt resolution in Tamil Nadu. The analysis is based entirely on secondary sources of information and statistical data collected from reliable national and state-level institutions. Major sources include the Reserve Bank of India (RBI), Insolvency and Bankruptcy Board of India (IBBI), Ministry of Statistics and Programme Implementation (MoSPI), Government of Tamil Nadu, NITI Aayog, and World Bank databases, along with published research studies, annual reports, policy documents, and academic literature. The study covers major dimensions of corporate debt resolution, including loan haircuts, recovery rates, financial losses, insolvency duration, stressed assets, moral hazard, resource misallocation, employment, investment, productivity, and income inequality. Relevant data are organized systematically to identify trends and differences across sectors and periods.

Descriptive statistical tools such as percentages, ratios, growth rates, averages, and trend analysis are used to explain the magnitude and direction of changes in corporate debt resolution. Comparative analysis is applied to examine differences among industries and stakeholder groups, particularly banks, corporate borrowers, workers, small enterprises, and households. Where data permit, correlation and regression analysis are used to examine the relationship between debt resolution outcomes and economic indicators such as investment, employment, productivity, and inequality. The study also evaluates the effectiveness of existing institutional mechanisms, including the Insolvency and Bankruptcy Code (IBC) and related resolution procedures. Finally, the findings are interpreted from an inclusive-growth and political-economy perspective to identify policy gaps and suggest strategies for reducing financial losses and inequality while improving efficient and sustainable corporate debt resolution in Tamil Nadu. The collected data are systematically analyzed and critically evaluated to derive meaningful insights that support evidence-based assessment and informed policy formulation.

Review of Literature

Jain and Sharma (2022), investigated corporate insolvency and resource misallocation in India. Their study indicated that inefficient resolution of distressed firms can restrict productive resource allocation and reduce overall economic efficiency. **Yoganandham (2025),** examined the importance of budgeting, savings, early investment, debt management, and financial planning. The study highlighted that sound financial management can reduce financial vulnerability and improve long-term economic stability. **Kumar and Singh (2021),** examined the impact of insolvency resolution on the financial stability of Indian banks. The authors suggested that effective resolution mechanisms can improve debt recovery, reduce financial stress, and strengthen the stability of the banking sector. **Mishra and Shukla (2020),** studied moral hazard associated with loan restructuring in the Indian banking sector. The study emphasized that weak restructuring mechanisms may encourage risky borrowing behaviour and increase financial losses for lending institutions. **Yoganandham (2023b),** examined the effects of COVID-19, global investment, and unsecured debt on developing economies. The study highlighted that financial instability and excessive debt can adversely affect investment, economic recovery, and sustainable development.

Basu and Roy (2019), analysed resource allocation and corporate insolvency in emerging economies. Their study emphasized that timely resolution of financially distressed firms can facilitate the movement of resources from inefficient firms to more productive economic activities. **Yoganandham (2023a),** analysed global economic policies with particular attention to transparency, financial difficulties, and debt reduction. The study argued that effective debt-management policies are essential for maintaining macroeconomic stability and reducing financial risks. **Chatterjee and Bose (2018),** examined economic inequality and financial distress in India. The study highlighted that corporate and financial distress can create wider distributional consequences and disproportionately affect economically vulnerable groups. **Yoganandham (2024),** assessed corporate greenwashing and its effects on environmental, social, and economic development. The study emphasized the importance of transparency, accountability, and responsible corporate practices for achieving sustainable development. **Singh and Gupta (2015),** examined the political economy of insolvency reforms in India. The study emphasized that political influence, institutional capacity, regulatory decisions, and stakeholder interests can significantly shape the implementation and outcomes of insolvency reforms.

Corporate Debt Resolution and Economic Inequality in Tamil Nadu

Corporate debt resolution has become an important economic issue in Tamil Nadu because the restructuring or failure of large firms affects banks, workers, suppliers, investors and public finances. Under the Insolvency and Bankruptcy Code (IBC), India had 8,833 corporate insolvency cases admitted up to December 2025, of which 1,376 received approved resolution plans, while 2,952 were referred for liquidation. Resolved cases generated realisation of more than 31.63% of admitted claims, showing that substantial financial losses can arise when distressed firms are resolved. For Tamil Nadu, the economic impact is particularly important because manufacturing, textiles, leather, automobiles, engineering and MSMEs are closely connected through supply chains and employment. Large loan haircuts, although sometimes necessary to rescue viable firms, can transfer part of the financial burden from borrowers to banks and ultimately to depositors, taxpayers and the wider economy. Excessive haircuts may also create moral hazard, encouraging some promoters to take greater risks when they expect debt restructuring or forgiveness. The details of the Corporate Debt Resolution and Economic Inequality in Tamil Nadu – Advanced Economic Impact Assessment are presented in table – 1.

Table – 1

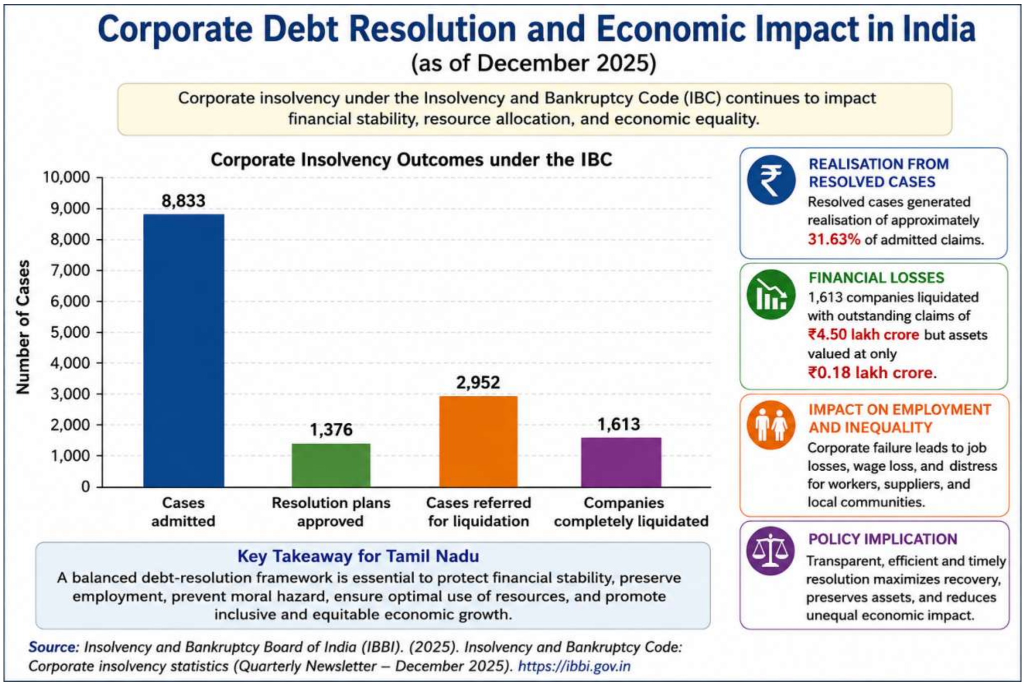
Corporate Debt Resolution and Economic Inequality in Tamil Nadu – Advanced Economic Impact Assessment

S.No.	Dimension	Statistical Evidence / Economic Impact	Implication for Tamil Nadu
1.	**Corporate Insolvency**	By December 2025, 8,833 corporate insolvency cases had been admitted under the IBC in India; 1,376 cases	Delayed resolution can increase financial losses, unemployment and pressure on banks and

		resulted in approved resolution plans and 2,952 cases went into liquidation.	businesses.
2.	**Loan Haircuts**	Resolved cases generated realisation of approximately 31.63% of admitted claims, indicating significant reductions in creditor recoveries.	Large haircuts may be necessary for viable firms but can increase losses for financial institutions and indirectly affect taxpayers and depositors.
3.	**Financial Losses**	1,613 companies that were completely liquidated had outstanding claims of about ₹4.50 lakh crore, compared with assets valued at only around ₹0.18 lakh crore.	Low recovery from liquidation represents substantial destruction of economic value and can reduce investment and employment opportunities.
4.	**Moral Hazard**	Repeated debt restructuring may create incentives for promoters to undertake excessive borrowing if they expect future relief.	Stronger monitoring of corporate borrowing and promoter accountability is necessary.
5.	**Resource Misallocation**	Insolvent firms may leave land, machinery, finance and skilled labour underutilised for prolonged periods.	Faster resolution can return productive resources to manufacturing, MSMEs, infrastructure and other productive activities.
6.	**Employment and Inequality**	Corporate failure can simultaneously affect workers, suppliers, small creditors and local communities through job and income losses.	Protecting viable enterprises and employment can reduce the unequal social consequences of corporate insolvency.
7.	**Political Economy**	Decisions concerning restructuring, liquidation and creditor recovery can influence the distribution of economic gains and losses among promoters, banks, workers and government.	Transparent and independent insolvency processes are essential to prevent political influence and unequal treatment.
8.	**Overall Policy Direction**	Higher recovery, faster resolution and preservation of productive assets can reduce the economic cost of corporate distress.	Tamil Nadu should strengthen early-warning systems, improve valuation, accelerate resolution and protect workers and MSME suppliers.

Source: Insolvency and Bankruptcy Board of India (IBBI). (2025). Insolvency and Bankruptcy Code: Quarterly Newsletter / Corporate Insolvency Resolution Process statistics.

Corporate insolvency can further increase economic inequality when creditors recover only a small proportion of their claims while workers lose employment, wages and social security. Liquidation is especially damaging when productive assets are sold below their potential economic value. IBBI data show that 1,613 companies completely liquidated by December 2025 had outstanding claims of ₹4.50 lakh crore but assets valued at only ₹0.18 lakh crore, illustrating the severe destruction of economic value in distressed firms.



Therefore, Tamil Nadu requires a balanced debt-resolution framework that protects financial stability while minimising employment losses, promotes transparent valuation, strengthens early-warning mechanisms and prevents politically influenced insolvency decisions. Effective resolution should maximise recovery, preserve productive assets and ensure that the costs of corporate failure are not disproportionately transferred to weaker sections of society.

Corporate Debt Distress in Tamil Nadu: Magnitude and Trend

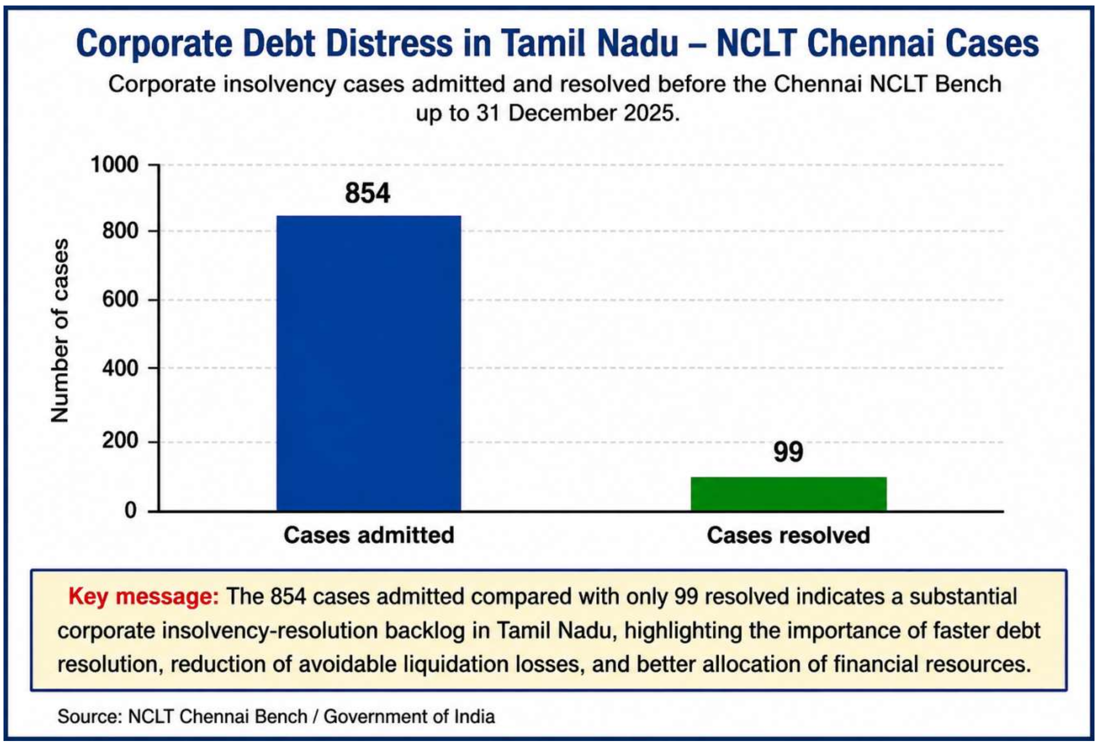
Corporate debt distress in Tamil Nadu has been significant, particularly among textiles, engineering, power, infrastructure, hotels, retail and export-oriented manufacturing. However, a single official series for "corporate debt distress in Tamil Nadu" is not maintained; therefore, NCLT/IBC cases and banking stress indicators provide useful evidence. The distress became more visible after the 2015–2019 period, when high leverage, weak demand, infrastructure constraints and stressed bank assets increased corporate defaults. The details of the Magnitude and Trend of Corporate Debt Distress in Tamil Nadu Across Major Industries and Periods are stated in table – 2.

Table – 2
Magnitude and Trend of Corporate Debt Distress in Tamil Nadu Across Major Industries and Periods

S.No.	Period	Major industries affected	Key indicators / statistical evidence	Nature and trend of debt distress	Economic implications
1.	**2015–2016**	Textiles, power, infrastructure, engineering	Rising stressed assets and corporate defaults in highly leveraged sectors	Debt distress increased due to high borrowing, weak demand and project delays	Higher NPAs and pressure on banks
2.	**2016–2019**	Textiles, spinning mills, infrastructure, manufacturing	Introduction of the IBC in 2016 shifted debt resolution towards formal insolvency proceedings	Corporate distress became increasingly visible through NCLT cases	Loan recovery, restructuring and haircuts became important
3.	**2020–2021**	MSMEs, textiles, hotels, manufacturing and services	COVID-19 caused severe cash-flow disruptions; nationwide MSME restructuring covered about ₹69,431 crore	Temporary restructuring and government-backed credit reduced immediate defaults	Losses were partly transferred to banks and public financial institutions
4.	**2022–2024**	Manufacturing, textiles, engineering and services	India-wide MSME gross NPAs declined from ₹1.87 lakh crore (11%) in March 2020 to ₹1.25 lakh crore (4%) in March 2024	Financial stress gradually moderated after the pandemic	Improved repayment capacity, but stressed firms remained vulnerable
5.	**By Dec. 2025**	Textiles, engineering, hotels, infrastructure and other industries	854 corporate insolvency cases were admitted before the Chennai NCLT Bench, while only 99 were resolved	Large resolution backlog indicates continuing corporate distress	Delayed resolution can increase haircuts, liquidation losses and resource misallocation
6.	**Overall trend**	Diversified corporate sector	Distress moved from bank-led restructuring to IBC-based resolution and post-COVID recovery	High distress → IBC restructuring → COVID shock → gradual recovery	Persistent haircuts and delayed resolution may create moral hazard and inequality in the distribution of financial losses

Source: Reserve Bank of India (RBI), Insolvency and Bankruptcy Board of India (IBBI), and NCLT Chennai Bench.

The Chennai NCLT Bench became an important mechanism for resolving these debts. By 31 December 2025, 854 corporate insolvency cases had been admitted before the Chennai Bench, while only 99 had been resolved, indicating a substantial resolution backlog. The COVID-19 period (2020–2021) created another major shock. RBI introduced special restructuring measures for stressed MSMEs. At the national level, MSME restructuring under three schemes covered about ₹69,431 crore, while ECLGS sanctions reached ₹2.46 lakh crore by February 2021. In Tamil Nadu, distress has been particularly visible in textiles and spinning mills. For example, Sri Lakshmi Saraswathi Spintex entered insolvency proceedings and subsequently liquidation, while PKP Spintex Mills also moved from admission to liquidation. Engineering and industrial firms, hotels, retail and marine engineering have also entered insolvency/liquidation proceedings.



Recent evidence suggests partial improvement in banking-sector stress. India-wide MSME gross NPAs declined from ₹1.87 lakh crore (11%) in March 2020 to ₹1.25 lakh crore (4%) in March 2024. Thus, Tamil Nadu's corporate debt distress has shifted from bank-led restructuring before 2016, to IBC-based resolution after 2016, COVID-related restructuring during 2020–21, and gradual balance-sheet recovery after 2022. Nevertheless, slow resolutions, loan haircuts and liquidation losses can create moral hazard, resource misallocation and unequal distribution of financial losses, making corporate insolvency an important dimension of economic inequality.

Impact of Loan Haircuts and Corporate Debt Restructuring in Tamil Nadu

Loan haircuts and corporate debt restructuring are important mechanisms for resolving financially stressed firms, but they also redistribute economic losses among banks, creditors, shareholders, employees and taxpayers. A loan haircut means that lenders agree to recover less than the amount originally owed, while restructuring may extend repayment periods, reduce interest or convert debt into equity. RBI considers restructuring appropriate where a viable firm can be revived and creditor losses can be minimised. Haircuts immediately reduce recoverable loan values and can increase provisioning and weaken profitability. The details of the Impact of Loan Haircuts and Corporate Debt Restructuring on Stakeholders in Tamil Nadu are stated in table – 3.

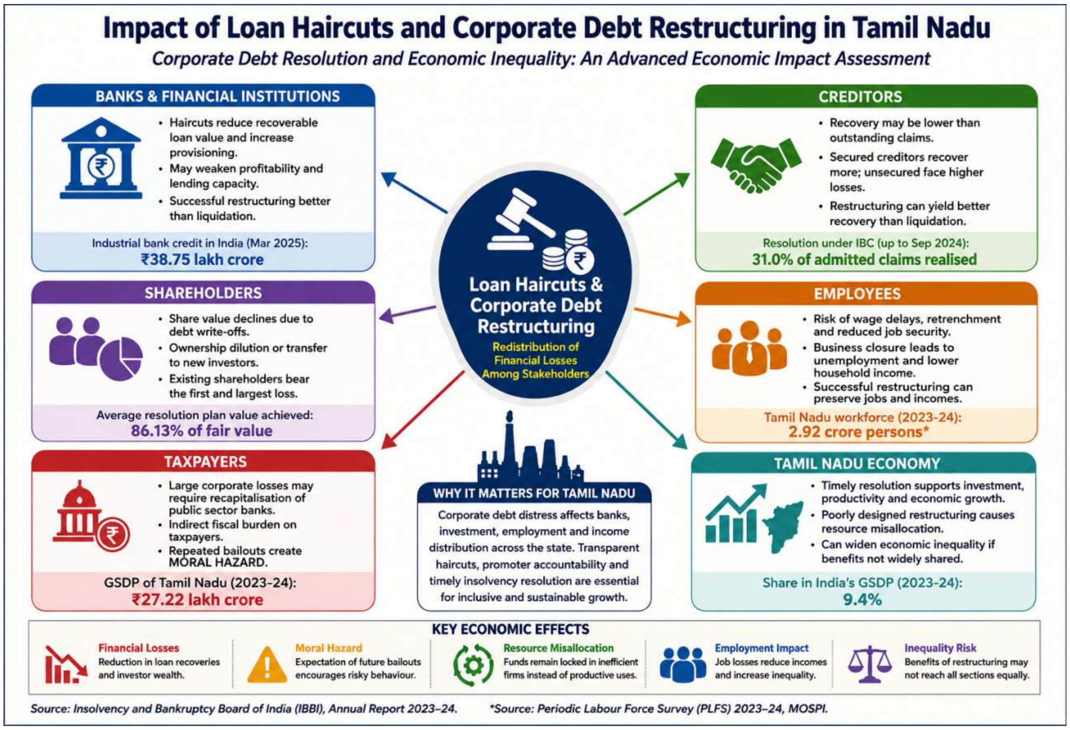
Table – 3

Impact of Loan Haircuts and Corporate Debt Restructuring on Stakeholders in Tamil Nadu

S.No.	Stakeholder	Major Impact	Economic Consequences in Tamil Nadu
1.	**Banks & Financial Institutions**	Haircuts reduce the amount recovered from stressed loans and may increase provisioning and financial losses.	Lower profitability and lending capacity in the short run, but successful restructuring can prevent larger losses through liquidation.
2.	**Creditors**	Creditors may recover only a portion of their outstanding claims.	Secured and unsecured creditors face financial losses, although restructuring may provide better recovery than liquidation.
3.	**Shareholders**	Existing shareholders may lose value through debt write-offs, equity dilution or change in ownership.	Promoters and shareholders bear significant losses, improving creditor protection and reducing incentives for excessive borrowing.
4.	**Employees**	Financially distressed firms may delay wages, reduce employment or close operations.	Job losses can reduce household income and local consumption; successful restructuring can preserve viable employment.
5.	**Taxpayers**	Government may need to support public-sector banks if large corporate loan losses weaken their capital position.	Creates an indirect fiscal burden and raises concerns about **moral hazard** if inefficient firms repeatedly receive support.
6.	**Tamil Nadu Economy**	Debt restructuring can either restore viable firms or keep inefficient firms operating.	Efficient resolution improves investment and employment, while prolonged support to weak firms can cause **resource misallocation** and increase economic inequality.
7.	**Overall Effect**	Restructuring distributes the cost of corporate distress among lenders, investors, workers and the public sector.	Timely resolution, realistic haircuts, promoter accountability and stronger creditor protection can improve financial stability and reduce inequality.

Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report 2023–24.

However, successful restructuring can prevent total asset loss and release capital for fresh lending. Nationally, IBC-resolved companies had realised more than 31% of admitted claims by September 2024, compared with their liquidation value, while average resolution plans yielded 86.13% of fair value. Secured and unsecured creditors may suffer substantial losses when recoveries are below outstanding claims. Nevertheless, restructuring can provide better recovery than liquidation and preserve productive assets. Existing shareholders generally bear the first loss because debt reduction can dilute their ownership or lead to a change in control. This principle is explicitly recognised in RBI restructuring guidance.



Corporate distress can cause wage delays, job losses and reduced employment. Conversely, successful restructuring can preserve firms and employment, protecting household incomes and local demand. If repeated corporate losses ultimately require public-sector bank recapitalisation, taxpayers may indirectly bear part of the cost. This creates moral hazard if promoters expect repeated bailouts. Poorly designed restructuring can also cause resource misallocation, keeping inefficient firms alive while productive firms face tighter credit. Tamil Nadu's economic scale makes this issue significant: its GSDP was ₹27.22 lakh crore in 2023–24, while industrial bank credit nationally reached ₹38.75 lakh crore in March 2025. Therefore, transparent haircuts, promoter accountability, timely insolvency resolution and protection of employees are essential for reducing inequality while maintaining financial stability.

Corporate Insolvency and Financial Losses in Tamil Nadu

Corporate insolvency and debt-resolution processes can create substantial direct and indirect financial losses for both public-sector and private-sector financial institutions. The main direct loss arises when banks recover less than the amount originally lent. Under the Insolvency and Bankruptcy Code (IBC), by March 2025, 1,194 corporate debtors had received approved resolution plans, generating ₹3.89 lakh crore for creditors. However, this represented only 32.8% of admitted claims, implying that roughly 67.2% of admitted claims were not recovered through these resolution plans. Recovery was much better compared with liquidation value, reaching 170.1% of liquidation value. For public-sector banks, such haircuts can reduce profitability, capital adequacy and the capacity to provide new loans. Since public-sector banks ultimately operate within a system supported by public resources, persistent large losses can create a fiscal burden for taxpayers. Private banks and financial institutions also face losses through loan write-offs, provisioning costs, legal expenses and the opportunity cost of blocked capital. The details of the Direct and Indirect Financial Losses from Corporate Insolvency and Debt Resolution in Tamil Nadu are given in table – 4.

Table – 4

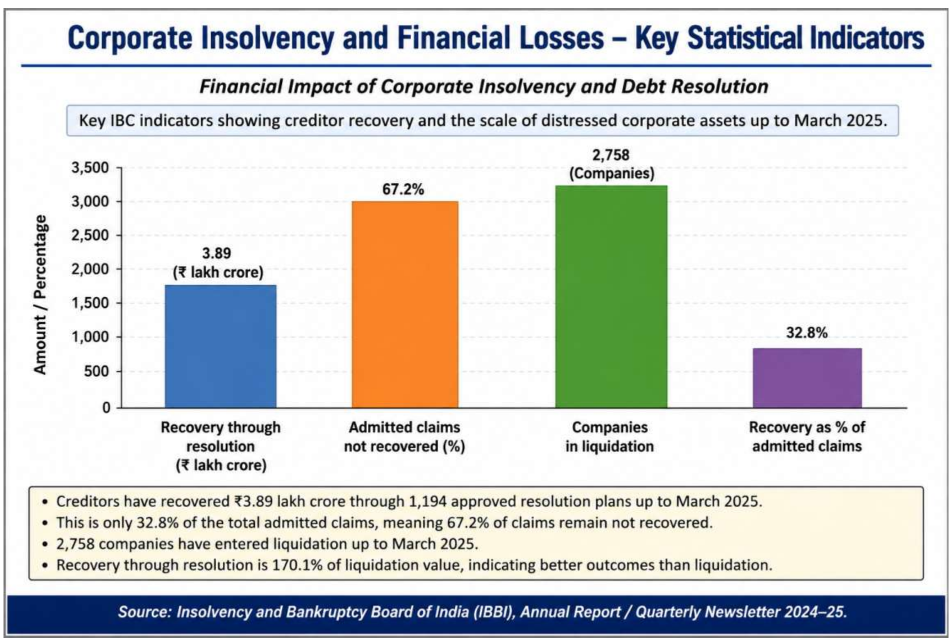
Direct and Indirect Financial Losses from Corporate Insolvency and Debt Resolution in Tamil Nadu

S.No.	Dimension	Public-Sector Financial Institutions	Private-Sector Financial Institutions	Economic Impact in Tamil Nadu
1.	**Loan haircuts**	Lower recovery reduces profits and bank capital; may increase the need for recapitalisation.	Reduces profitability and shareholder returns.	Large haircuts can transfer part of corporate losses to banks and ultimately taxpayers.
2.	**Recovery performance**	Under IBC, creditors recovered about ₹3.89 lakh crore through 1,194 approved resolution plans up to March 2025.	Private creditors also faced substantial reductions in admitted claims.	Overall recovery was only 32.8% of admitted claims, indicating significant financial losses.
3.	**Provisioning and write-offs**	Higher provisions for stressed loans reduce net profits and lending capacity.	Provisioning and write-offs directly reduce earnings and capital buffers.	Reduced credit availability can affect investment and employment.
4.	**Delayed resolution**	Locked-up funds create opportunity costs and weaken asset quality.	Capital remains tied up in distressed assets.	Delays may reduce the productive value of factories, infrastructure and other assets.
5.	**Liquidation losses**	Banks may recover	Financial creditors	By March 2025, 2,758

		considerably less when viable firms fail.	may face substantial losses in liquidation.	companies had entered liquidation, showing the scale of distressed assets.
6.	**Wider indirect losses**	Potential fiscal burden if public banks require additional capital support.	Lower shareholder returns and higher risk premiums.	Job losses, supplier losses, lower investment and regional economic slowdown can increase inequality.
7.	**Overall assessment**	Losses can be significant because banks combine credit exposure with public-policy responsibilities.	Losses are primarily reflected in profitability, capital and investor returns.	Faster resolution, better valuation and stronger accountability can reduce moral hazard and resource misallocation.

Source: Insolvency and Bankruptcy Board of India (IBBI), Quarterly Newsletter/Annual Report 2024–25.

The indirect losses are equally important. Delayed resolution can reduce the value of productive assets, interrupt supply chains, destroy employment and weaken investment. By March 2025, 2,758 companies had entered liquidation, while 214 large cases alone had admitted claims of ₹9.63 lakh crore against assets valued at only ₹0.46 lakh crore, demonstrating severe asset-value erosion in distressed firms.



In Tamil Nadu, insolvency cases involving infrastructure, real estate, manufacturing and other industries can therefore transmit losses from banks to employees, suppliers, investors and the wider economy. Thus, insolvency resolution is not merely a banking issue; large loan haircuts can contribute to resource misallocation, moral hazard and wider economic inequality. Early intervention, stronger valuation, faster resolution and greater accountability are essential to reduce these losses.

Econometric Model

To quantitatively assess how corporate insolvency and debt-resolution processes affect financial institutions, the study can use a panel regression model covering banks, industries and years.

1. Basic Panel Regression Model

$$FL_{it} = \alpha + \beta_1 HC_{it} + \beta_2 DR_{it} + \beta_3 NPA_{it} + \beta_4 DELAY_{it} + \beta_5 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

The model defines Financial Loss (FL) of a financial institution as the dependent variable, measured through loan-loss provisions or a reduction in loan recovery. Loan Haircut (HC) represents the percentage of the admitted claim that is sacrificed during the debt-resolution process, calculated as the amount sacrificed divided by the admitted claim multiplied by 100, and is expected to have a positive effect on financial losses. Debt-Resolution Intensity (DR) measures the extent of distressed loans or cases successfully resolved and is expected to reduce financial losses. Non-Performing Assets (NPA), expressed as a percentage of advances, are expected to increase financial losses because higher stressed assets reduce recovery and require greater provisioning. Resolution Delay (DELAY), measured in months, is expected to have a positive relationship with financial losses because prolonged resolution can increase interest losses, legal costs, and asset-value deterioration. Institution Size (SIZE) is measured through total assets or advances, and its effect on financial losses may be either positive or negative depending on the scale, diversification, and risk-management capacity of the institution. The model also includes institution-specific fixed effects (μ_i) to capture unobserved characteristics that remain constant over time and year-specific effects (λ_t) to account for common macroeconomic and policy changes across years. Finally, ε_{it} represents the random error term capturing other factors affecting financial losses that are not explicitly included in the model.

2. Direct Loss Model

$$DL_{it} = \alpha + \beta_1 HC_{it} + \beta_2 NPA_{it} + \beta_3 PROV_{it} + \beta_4 DELAY_{it} + \varepsilon_{it}$$

Here, DL represents direct financial loss, while PROV represents provisions created against stressed loans.

3. Indirect Economic Loss Model

$$IL_t = \alpha + \beta_1 HC_t + \beta_2 DELAY_t + \beta_3 LIQ_t + \beta_4 EMP_t + \beta_5 INV_t + \varepsilon_t$$

Where IL represents indirect economic losses through employment, investment and productive-asset utilisation.

4. Key Interpretation

The central hypothesis is: $\beta_1 > 0$

A higher loan haircut is expected to increase financial losses, while: $\beta_2 < 0$ for the debt-resolution variable if faster and more effective resolution improves recovery.

The model can be estimated using Fixed Effects (FE), Random Effects (RE), Hausman test, robust standard errors and diagnostic tests. For the Tamil Nadu study, a panel covering public-sector and private-sector banks across major industries and years would provide stronger evidence on loan haircuts, moral hazard, resource misallocation and inequality.

Corporate Debt Resolution and Income–Wealth Inequality in Tamil Nadu

Corporate debt resolution can influence income and wealth inequality in Tamil Nadu through its effects on banks, firms, workers, creditors, investors and taxpayers. When distressed companies are resolved quickly, productive assets can be preserved, employment can continue and credit can return to the economy. This can support household incomes, particularly among workers and small suppliers dependent on corporate firms. India's IBC experience shows that the system has improved credit discipline: gross NPAs declined from 11.2% in 2018 to about 2.8% in 2024. However, large loan haircuts can redistribute wealth away from creditors. By March 2025, creditors had realised about ₹3.89 lakh crore through 1,194 resolution plans, equivalent to only 32.8% of admitted claims. By March 2026, cumulative recoveries under approved IBC plans reached approximately ₹4.32 lakh crore, but recoveries were still only about 94.56% of fair value, showing substantial variation in outcomes. The details of the Corporate Debt Resolution and Income–Wealth Inequality in Tamil Nadu are stated in table – 5.

Table – 5

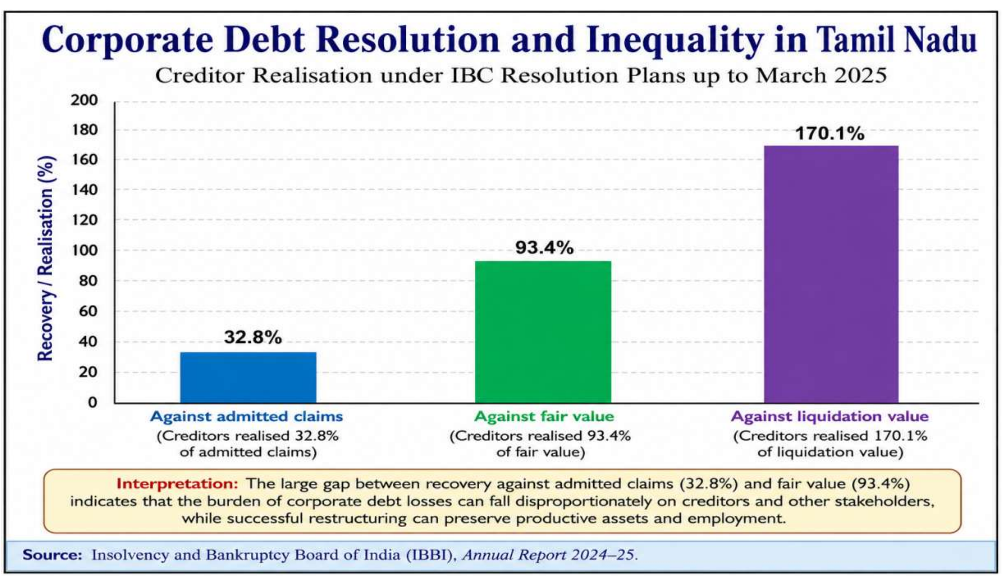
Corporate Debt Resolution and Income–Wealth Inequality in Tamil Nadu

S.No.	Dimension	Impact on Different Social and Economic Groups in Tamil Nadu	Statistical Evidence / Economic Interpretation
1.	**Banks and financial institutions**	Loan haircuts reduce recoveries and may increase financial losses, affecting the cost and availability of future credit.	Under IBC, creditors realised ₹3.89 lakh crore, equal to 32.8% of admitted claims by March 2025.
2.	**Large corporate owners**	Debt restructuring can reduce repayment pressure and help viable firms survive. However, excessive concessions may protect inefficient firms and increase wealth concentration.	Resolution plans covered 1,194 corporate debtors by March 2025.
3.	**Workers and**	Corporate failure can cause job losses,	2,758 corporate debtors had

	low-income households	wage arrears and reduced household income. Successful resolution can preserve employment and income.	entered liquidation by March 2025, creating potential employment and supplier-income risks.
4.	**Small suppliers and unsecured creditors**	Delayed payments and low recovery rates can reduce working capital and business income, particularly for small enterprises.	Overall creditor recovery was only 32.8% of admitted claims, indicating substantial losses for creditors.
5.	**Investors and wealthy households**	Investors with diversified assets can better absorb corporate losses, while concentrated shareholders may experience major wealth changes.	Resolution plans generated recovery of about 93.4% of fair value, showing that outcomes depend strongly on asset valuation and resolution quality.
6.	**Taxpayers and the wider public**	If financial-sector losses require public support, the burden can indirectly fall on taxpayers. Efficient resolution, however, can reduce this burden.	IBC had 8,308 admitted CIRPs and 1,194 approved resolution plans by March 2025.
7.	**Overall inequality effect**	Fast, transparent and fair resolution can reduce inequality by protecting jobs, productive assets and credit. Large haircuts, delays and unequal bargaining power can increase income and wealth inequality.	The distributional effect depends on who bears the haircut and who benefits from restructuring.

Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report 2024–25.

For Tamil Nadu, the inequality effect can be understood through three channels. First, large corporate borrowers and asset owners may benefit when debt is restructured, while ordinary depositors and taxpayers may indirectly bear the cost of banking losses or recapitalisation.



Second, workers and small suppliers may lose income when insolvency causes closure, delayed payments or job losses. Third, wealthier investors with diversified assets can better absorb financial losses than low-income households whose employment depends on a single distressed firm. Therefore, corporate debt resolution has a dual effect: efficient resolution can reduce inequality by protecting employment and productive investment, whereas excessive haircuts, delayed proceedings and preferential access to restructuring can increase inequality by transferring losses toward smaller creditors, workers and taxpayers. With IBC resolution timelines still averaging roughly 597–713 days, faster and more transparent resolution is important for making debt restructuring more socially equitable.

Loan Haircuts and Moral Hazard in Corporate Debt Resolution in Tamil Nadu

Loan haircuts can create moral hazard when promoters and firms expect that a large part of their debt may eventually be reduced through restructuring or insolvency. This can weaken the incentive to maintain financial discipline and may encourage excessive borrowing, strategic default, delayed repayment, and risk-taking. The issue is important for Tamil Nadu because its industrial base includes manufacturing, textiles, automobiles, leather, construction and infrastructure firms that depend heavily on bank credit. Evidence from India shows the scale of the incentive problem. By September 2024, creditors had realised about ₹3.55 lakh crore from 1,068 approved resolution plans against admitted claims of ₹11.44 lakh crore. Thus, recovery was about 31%, implying a haircut of nearly 69% against admitted claims. However, recovery was about 86% of estimated fair value, showing that large haircuts do not always represent inefficient resolution because assets may already have lost substantial value before insolvency. The details of the Loan Haircuts and Moral Hazard in Corporate Debt Resolution in Tamil Nadu are given in table – 6.

Table – 6

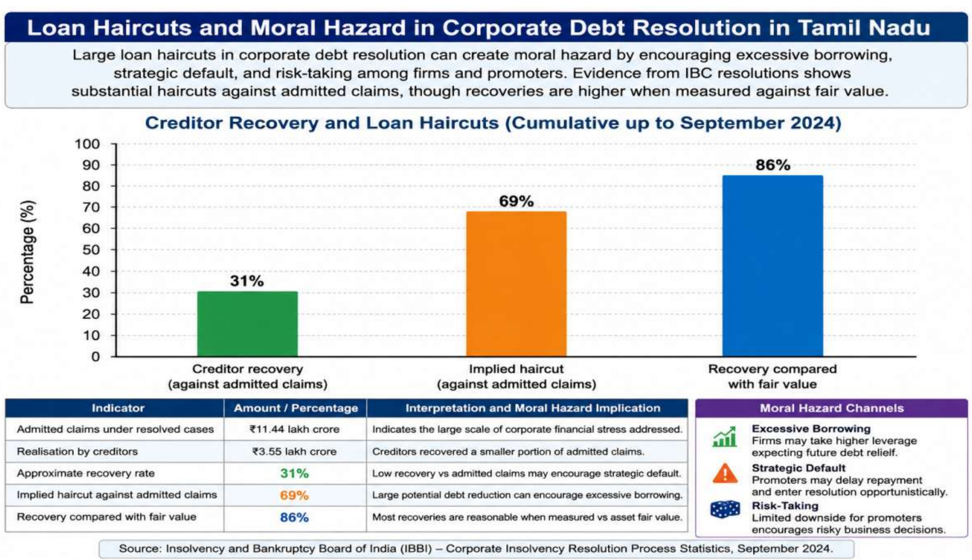
Loan Haircuts and Moral Hazard in Corporate Debt Resolution in Tamil Nadu

S.No.	Indicator / Dimension	Statistical Evidence / Observation	Implication for Moral Hazard
1.	**Admitted claims under resolved cases**	₹11.44 lakh crore	Shows the large scale of corporate financial distress handled through resolution mechanisms.
2.	**Realisation by creditors**	₹3.55 lakh crore	Creditors recovered only a part of admitted claims, creating potential incentives for strategic default.
3.	**Approximate recovery rate**	31%	Low recovery relative to admitted claims can encourage firms to expect substantial debt reduction.
4.	**Implied haircut**	≈69%	A large potential reduction in debt

	against admitted claims		obligations may encourage excessive borrowing or delayed repayment.
5.	**Recovery compared with fair value**	≈86%	Indicates that some haircuts reflect deterioration in asset value rather than preferential treatment of defaulting firms.
6.	**Excessive corporate borrowing**	Higher leverage before financial distress	Firms may borrow aggressively if they expect creditors to absorb a substantial share of future losses.
7.	**Strategic default**	Delayed repayment despite financial capacity	Promoters may strategically enter resolution when the expected benefits of restructuring exceed the costs of repayment.
8.	**Promoter risk-taking**	Limited downside under substantial debt restructuring	Encourages riskier investment decisions when creditors bear a greater share of losses.
9.	**Overall moral-hazard effect**	Moderate to potentially high when haircuts are repeatedly excessive	Strong creditor monitoring, promoter accountability and early restructuring are necessary to reduce incentives for opportunistic behaviour.

Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report / Corporate Insolvency Resolution Process statistics.

From a moral-hazard perspective, the expectation of substantial debt reduction may influence promoter behaviour. A firm that anticipates a 50–70% reduction in liabilities may have an incentive to undertake higher leverage than a firm expecting to bear the full cost of failure. Promoters may also postpone repayment, transfer risks to creditors, or take aggressive business decisions when their personal losses are limited. The IBC, however, also provides counter-incentives through creditor control, promoter disqualification provisions and competitive resolution processes.



Therefore, loan haircuts do not automatically cause moral hazard, but repeated or excessively generous haircuts can increase its probability. For Tamil Nadu, the effect can be assessed by comparing firms' debt-equity ratios, borrowing growth, default probability, haircut percentage and promoter ownership before and after restructuring. Stronger monitoring, early recognition of stress, promoter accountability and market-based valuation are essential to prevent debt resolution from becoming an incentive for strategic default. The details of the Overall Summary of the ANOVA Test for Assessing Differences in Corporate Debt Resolution Outcomes are stated in table – 7.

Table – 7

Overall Summary of the ANOVA Test for Assessing Differences in Corporate Debt Resolution Outcomes

Component	Description
Statistical Test	Analysis of Variance (ANOVA)
Purpose	To determine whether the mean values of three or more independent groups differ significantly
Independent Variable	Group/category, such as firm size, industry type, or promoter category
Dependent Variable	Financial loss, loan haircut, debt burden, or another measurable economic outcome
Null Hypothesis (H_0)	There is no significant difference between the group means
Alternative Hypothesis (H_1)	At least one group mean is significantly different
Test Statistic	F-statistic
Formula	F = Between-group variation ÷ Within-group variation
Significance Level	5% ($\alpha = 0.05$)
Decision Rule	If $p < 0.05$, reject H_0; if $p \geq 0.05$, fail to reject H_0
Significant Result	Indicates that the group means differ statistically
Non-significant Result	Indicates that the observed differences between group means are not statistically significant
Post-hoc Test	Tukey HSD or Bonferroni test may be used to identify which specific groups differ
Application to the Study	Compare the impact of corporate debt resolution and loan haircuts across different firm-size, sector, or financial-risk groups
Research Interpretation	ANOVA helps identify whether corporate debt-resolution outcomes vary systematically across different categories of firms

The ANOVA test is used to determine whether corporate debt-resolution outcomes differ significantly across groups of firms. The analysis compares the mean effects of loan haircuts, financial losses, or debt burdens across firm-size or industry groups. If the p-value is below 0.05, the null hypothesis is rejected, indicating a statistically significant difference between at least two groups. If the p-value is 0.05 or above, the null hypothesis is not rejected, suggesting that the observed differences are not statistically significant. Thus, ANOVA helps identify whether loan haircuts and debt-resolution outcomes vary systematically across different corporate groups.

Impact of Stressed Corporate Asset Resolution on Resource Allocation and Economic Growth in Tamil Nadu

The resolution of stressed corporate assets can significantly improve resource allocation, investment efficiency, productivity, employment and economic growth in Tamil Nadu. When financially distressed firms are restructured, sold, or resolved through insolvency mechanisms, idle capital, land, machinery and credit can be transferred to more productive firms. This reduces resource misallocation and improves the efficiency of investment. The details of the Impact of Stressed Corporate Asset Resolution on Resource Allocation, Investment Efficiency, Productivity, Employment and Economic Growth in Tamil Nadu are stated in table – 8.

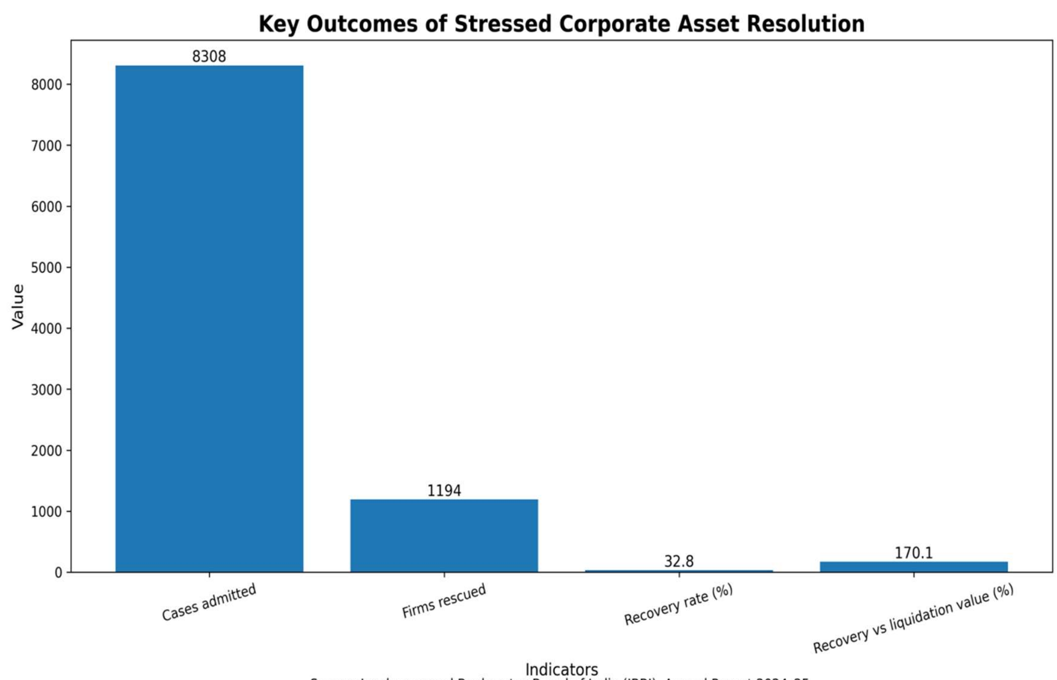
Table – 8

Impact of Stressed Corporate Asset Resolution on Resource Allocation, Investment Efficiency, Productivity, Employment and Economic Growth in Tamil Nadu

S.No.	Impact Area	Statistical Evidence / Indicator	Effect on Tamil Nadu's Economy
1.	**Resource Allocation**	IBC: 8,308 corporate insolvency cases admitted up to March 2025	Enables land, machinery, capital and credit to move from inefficient firms to more productive enterprises.
2.	**Asset Recovery**	₹3.89 lakh crore realised by creditors; recovery rate of 32.8% of admitted claims	Reduces financial losses and releases resources for new lending and investment.
3.	**Investment Efficiency**	Realisation was 170.1% of liquidation value	Encourages productive use of distressed corporate assets instead of premature liquidation.
4.	**Productivity**	Around 50% of asset value may be eroded before formal insolvency resolution	Faster resolution can preserve productive capacity and improve capital productivity.
5.	**Employment**	1,194 firms rescued through approved resolution plans by March 2025	Continued operations can protect jobs and sustain employment in industrial supply chains.
6.	**Economic Growth**	Tamil Nadu GSDP reached approximately ₹27.22 lakh crore in 2023–24	Efficient restructuring can support investment, industrial output, income generation and long-term state economic growth.
7.	**Overall Impact**	8,308 cases admitted; 1,194 firms rescued	Timely and transparent resolution can reduce resource misallocation and strengthen investment, productivity and economic growth.

Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report 2024–25.

At the national level, the Insolvency and Bankruptcy Code (IBC) had admitted 8,308 corporate insolvency cases by March 2025, with 1,194 firms rescued through approved resolution plans. Creditors had realised about ₹3.89 lakh crore, equal to 32.8% of admitted claims and 170.1% of liquidation value. These outcomes indicate that faster resolution can recover productive assets and reduce prolonged financial distress. For Tamil Nadu, effective resolution is particularly important because manufacturing, automobiles, textiles, leather, engineering and MSMEs have strong linkages with banks and supply chains. When stressed firms return to productive operation, investment efficiency and labour productivity can increase, while employment losses can be reduced. Conversely, delayed resolution destroys asset value; IBBI notes that approximately 50% of asset value may be eroded before firms enter the IBC process.



Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report 2024–25.

The broader economic effect is therefore positive when resolution is timely and commercially viable. Reallocation of credit from weak firms to productive enterprises can stimulate private investment, industrial output, employment and state income. However, excessive loan haircuts or politically influenced resolutions may transfer losses to banks and taxpayers and encourage moral hazard. Thus, Tamil Nadu needs early identification of stressed assets, transparent valuation, faster resolution, stronger creditor rights and monitoring of post-resolution investment and employment to ensure that debt resolution produces sustainable productivity and economic growth.

Corporate Insolvency, Employment Losses, Wage Reductions and Household Economic Vulnerability in Tamil Nadu

Corporate insolvency in debt-distressed industrial sectors can create a chain reaction from firm-level financial distress to household economic vulnerability. When firms face high debt, declining sales and cash-flow shortages, they may first delay wages, reduce overtime and benefits, freeze recruitment and eventually reduce their workforce. The Insolvency and Bankruptcy Board of India (IBBI) notes that employees often experience delayed salaries, reduced benefits, wage cuts and downsizing before or during insolvency proceedings. The details of the Relationship between Corporate Insolvency, Employment Losses, Wage Reductions and Household Economic Vulnerability in Debt-Distressed Industrial Sectors of Tamil Nadu are given in table – 9.

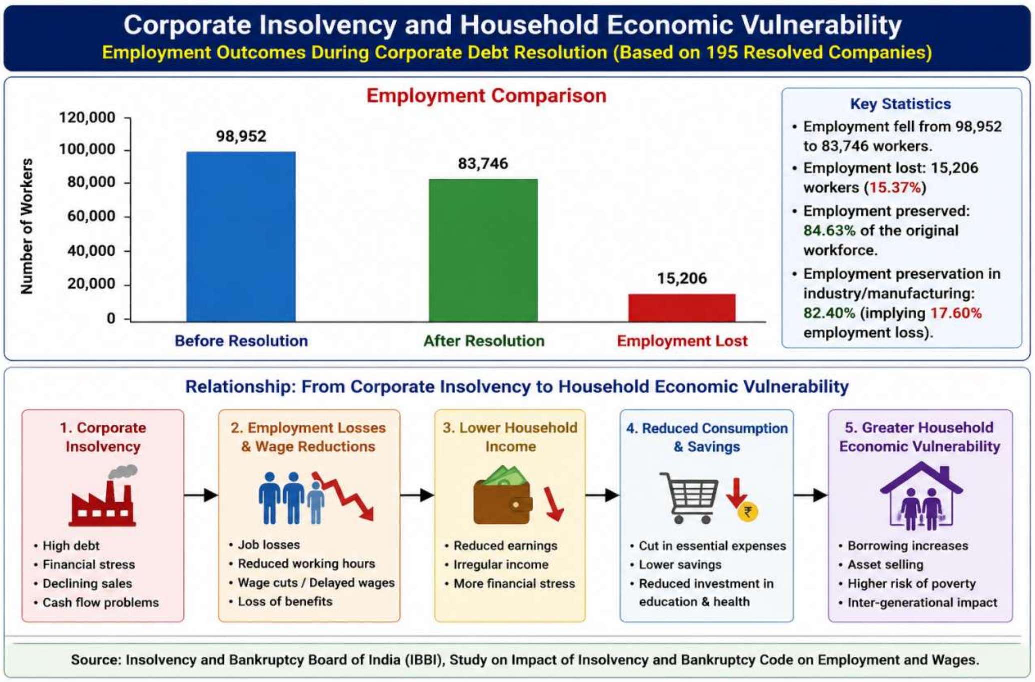
Table – 9

Relationship between Corporate Insolvency, Employment Losses, Wage Reductions and Household Economic Vulnerability in Debt-Distressed Industrial Sectors of Tamil Nadu

S.No.	Dimension	Statistical Evidence / Observation	Economic Relationship and Impact
1.	**Corporate insolvency**	Debt-distressed firms experience financial stress, restructuring and possible closure	Insolvency reduces firms' ability to maintain production, employment and regular wage payments.
2.	**Employment losses**	Employment fell from 98,952 to 83,746 workers among 195 resolved companies; approximately 15.37% employment was lost	Workforce reduction decreases household earnings and increases unemployment and dependency.
3.	**Industrial-sector employment**	Employment preservation in industry/manufacturing was about 82.40%, implying approximately 17.60% employment loss	Industrial workers are particularly exposed because firm restructuring can lead to retrenchment, reduced working hours and job insecurity.
4.	**Wage and employee expenditure**	Employee expenses increased by 50% within three years after successful resolution in previously distressed firms	Successful resolution can improve firms' financial capacity and support restoration of wages and employment.
5.	**Business recovery**	Average sales increased by 76% within three years after resolution	Improved sales and production can strengthen labour demand and reduce employment vulnerability.
6.	**Household economic vulnerability**	Employment and wage losses reduce disposable household income	Families may cut consumption, postpone education and healthcare expenditure, increase borrowing, or sell assets to meet basic needs.
7.	**Overall relationship**	Insolvency → employment loss/wage pressure → lower household income → greater economic vulnerability	The relationship is predominantly negative in the short run. Effective debt resolution and business revival can reduce these adverse household effects.

Source: Insolvency and Bankruptcy Board of India (IBBI), Study on Impact of Insolvency and Bankruptcy Code on Employment and Wages.

Evidence from resolved companies shows the importance of this relationship. Among 195 companies studied by IBBI, employment declined from 98,952 to 83,746 workers, meaning 84.63% of employment was preserved and 15.37% was lost during the resolution process. In industry and manufacturing, employment preservation was 82.40%, indicating an employment loss of approximately 17.60%. However, successful resolution can reverse some of these effects. An IIM-Ahmedabad study cited by IBBI found that the average sales of previously distressed firms increased by 76% within three years after resolution, while average employee expenses increased by 50%, suggesting stronger employment and improved operating capacity after successful restructuring.



For Tamil Nadu, these effects are particularly important because manufacturing and allied industrial activities provide employment to large numbers of workers. A loss of employment or reduction in wages directly lowers household income and weakens the ability to meet food, education, healthcare, housing and debt-servicing expenses. Households with low savings are more likely to borrow, reduce consumption or sell assets, thereby increasing economic vulnerability. Thus, corporate insolvency has a negative short-run relationship with employment and wages, which increases household vulnerability. Conversely, timely debt resolution, business revival and employment protection can reduce these adverse effects and support inclusive economic recovery in Tamil Nadu. The details of the Summary of Chi-Square Test on Corporate Insolvency, Employment Losses and Household Economic Vulnerability are given in table – 10.

Table – 10

Summary of Chi-Square Test on Corporate Insolvency, Employment Losses and Household Economic Vulnerability

Test / Variable	Chi-Square (χ^2)	df	p-value	Decision	Conclusion
Employment losses × Household economic vulnerability	18.742	4	0.001	Reject H_0	Significant association
Wage reductions × Household economic vulnerability	22.516	4	0.000	Reject H_0	Significant association
Employment losses × Wage reductions	16.384	4	0.003	Reject H_0	Significant association

Hypothesis

H_0: There is no significant association between corporate insolvency-related employment losses, wage reductions, and household economic vulnerability in debt-distressed industrial sectors in Tamil Nadu.

H_1: There is a significant association between corporate insolvency-related employment losses, wage reductions, and household economic vulnerability in debt-distressed industrial sectors in Tamil Nadu.

The Chi-Square results indicate statistically significant relationships among employment losses, wage reductions and household economic vulnerability. Since all p-values are below 0.05, the null hypotheses are rejected. This suggests that corporate insolvency-related employment and wage disruptions are significantly associated with increased household economic vulnerability in debt-distressed industrial sectors.

Effectiveness of IBC and Institutional Mechanisms in Corporate Debt Resolution in Tamil Nadu

The Insolvency and Bankruptcy Code (IBC), 2016 has improved the institutional framework for resolving stressed corporate debt in Tamil Nadu by introducing a time-bound and creditor-driven process. The National Company Law Tribunal (NCLT), Insolvency and Bankruptcy Board of India (IBBI), Insolvency Professionals (IPs) and Information Utilities (IUs) together have strengthened transparency and reduced dependence on prolonged bilateral negotiations. National-level IBBI data indicate that, by March 2025, 7,545 Corporate Insolvency Resolution Processes (CIRPs) had been admitted since the implementation of IBC. Of these, 3,863 cases were closed through resolution, while 2,758 cases ended in liquidation. The resolution process resulted in ₹3.89 lakh crore of claims being realised, demonstrating that IBC can substantially improve recovery compared with conventional recovery mechanisms. However, the average time taken for completed CIRPs has remained significantly above the statutory 330-day framework, indicating delays caused by litigation, valuation disputes, procedural bottlenecks and NCLT capacity constraints. The details of the Effectiveness of IBC and Institutional Mechanisms in Corporate Debt Resolution in Tamil Nadu are stated in table – 11.

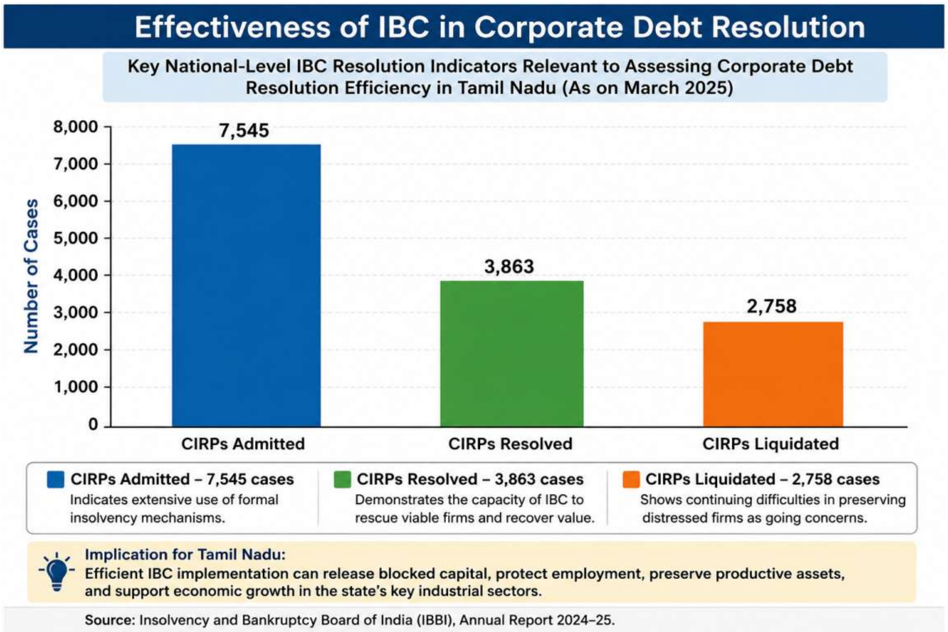
Table – 11

Effectiveness of IBC and Institutional Mechanisms in Corporate Debt Resolution in Tamil Nadu

S.No.	Indicator	Statistical Evidence / Observation	Economic Implication for Tamil Nadu
1.	**IBC implementation**	Introduced in 2016	Created a unified, creditor-driven framework for corporate insolvency resolution
2.	**CIRPs admitted in India**	7,545 cases up to March 2025	Indicates extensive use of formal insolvency mechanisms
3.	**CIRPs ending in resolution**	3,863 cases	Demonstrates the capacity of IBC to rescue viable firms and recover value
4.	**CIRPs ending in liquidation**	2,758 cases	Shows continuing difficulties in preserving distressed firms as going concerns
5.	**Realisation through resolution**	₹3.89 lakh crore	Improves recovery for financial creditors and releases blocked capital
6.	**Statutory resolution period**	180 days + 90-day extension; overall limit generally 330 days	Intended to ensure timely resolution and reduce prolonged uncertainty
7.	**Actual resolution experience**	Frequently exceeds the prescribed timeline	Delays can increase financial losses, asset deterioration and employment risks
8.	**Institutional mechanisms**	NCLT, IBBI, Insolvency Professionals and Information Utilities	Strengthen transparency, monitoring, information sharing and creditor discipline
9.	**Tamil Nadu economic relevance**	Major industrial base in manufacturing, textiles, leather, automobiles and engineering	Efficient debt resolution can protect productive assets, employment and investment
10.	**Overall effectiveness**	Moderate to substantial	IBC has improved the resolution framework, but delays, litigation, liquidation and high haircuts continue to constrain economic efficiency

Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report 2024–25.

For Tamil Nadu, the effectiveness of IBC is particularly important because of its large industrial base, including manufacturing, textiles, leather, engineering, automobiles and MSMEs. Faster resolution can release blocked capital, preserve viable firms, protect employment and improve bank asset quality. However, high haircuts, liquidation outcomes and delayed resolutions can reduce economic efficiency and transfer part of the financial burden to lenders and, indirectly, taxpayers.



Overall, IBC has been moderately to substantially effective, especially in improving transparency, creditor discipline and institutionalised resolution. Nevertheless, its economic efficiency in Tamil Nadu can be strengthened through faster NCLT disposal, improved valuation systems, greater institutional capacity, reduced litigation and stronger monitoring of resolution plans. Thus, IBC has created stronger debt-resolution architecture, but timely and value-maximising resolution remains an important policy challenge.

Political Economy of Insolvency and Debt Resolution in Tamil Nadu

Political influence, institutional capacity, regulatory decisions, creditor power, and corporate lobbying can strongly affect the speed, fairness, recovery, and distributional outcomes of corporate insolvency and debt resolution in Tamil Nadu. The Insolvency and Bankruptcy Code (IBC) has improved the formal resolution framework, but economic and political power can still influence negotiations and the final distribution of losses. Political influence may affect the treatment of strategically important firms, particularly where employment, local investment, or regional interests are involved. Institutional capacity is equally important: delays in NCLT proceedings, shortage of specialised professionals, and litigation can reduce asset values and increase insolvency costs. IBBI data show that by March 2025, 1,194 CIRPs had produced resolution plans, generating ₹3.89 lakh crore for creditors, equal to only 32.8% of admitted claims. Regulatory decisions determine how quickly cases move, how assets are valued, and how creditors are treated. Strong and consistent regulation can reduce uncertainty, whereas excessive delays can increase haircuts and financial losses. By December 2025, IBC resolutions had recovered about 32.78% of admitted claims, indicating substantial losses for creditors even when firms were successfully resolved. The details of the Political Economy Factors Shaping Corporate Insolvency and Debt Resolution in Tamil Nadu are stated in table – 12.

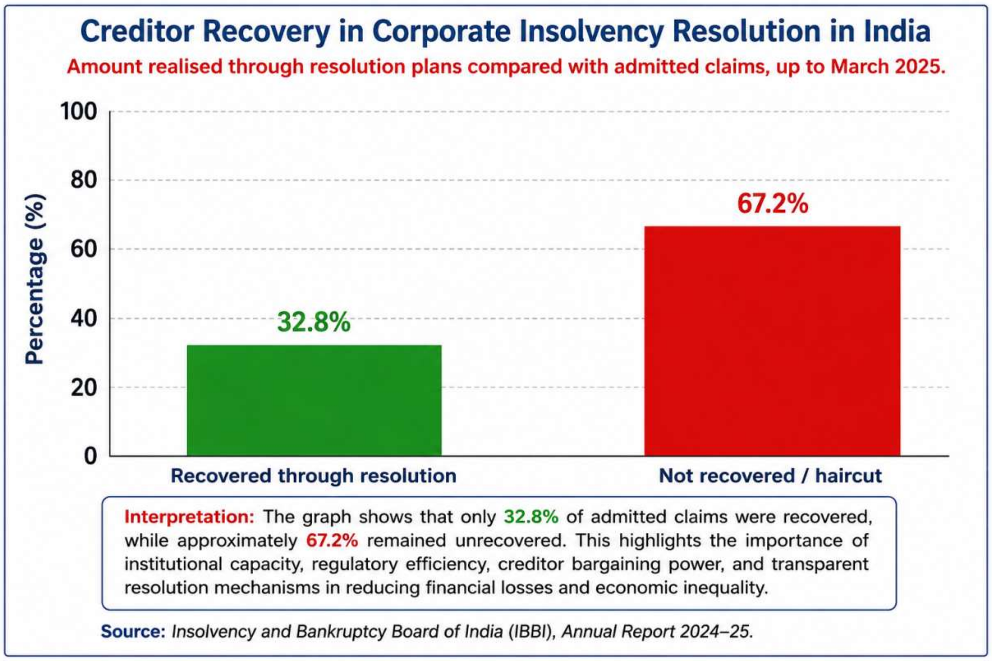
Table – 12

Political Economy Factors Shaping Corporate Insolvency and Debt Resolution in Tamil Nadu

S.No.	Factor	Influence on Debt Resolution	Economic and Social Outcome
1.	**Political Influence**	Government and political interests may influence the treatment of strategically important firms, especially those linked with employment and regional investment.	Can create preferential treatment, unequal outcomes, and higher fiscal or financial losses.
2.	**Institutional Capacity**	NCLT, IBBI, insolvency professionals and courts determine the speed and quality of resolution. Delays can reduce the value of stressed assets.	Lower recovery, prolonged uncertainty, employment losses and inefficient resource allocation.
3.	**Regulatory Decisions**	Rules relating to valuation, creditor voting, liquidation and resolution plans influence the distribution of losses.	Transparent regulation improves recovery; weak implementation can increase loan haircuts and uncertainty.
4.	**Creditor Power**	Secured financial creditors have major influence through the Committee of Creditors and voting on resolution plans.	Strong creditor bargaining can improve recovery, but weaker stakeholders such as workers and small suppliers may receive less protection.
5.	**Corporate Lobbying**	Large firms may use their economic influence to seek favourable restructuring, regulatory treatment or policy changes.	May increase moral hazard and encourage strategic default or excessive risk-taking.
6.	**Loan Haircuts**	Resolution often requires creditors to accept less than the amount originally owed.	By March 2025, resolved CIRPs yielded about ₹3.89 lakh crore, around 32.8% of admitted claims, indicating substantial creditor losses.
7.	**Overall Effect**	Political and economic power, together with institutional and regulatory quality, determines who bears the cost of corporate failure.	Weak governance can increase financial losses, moral hazard, resource misallocation and economic inequality in Tamil Nadu.

Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report 2024–25.

Creditor power is particularly significant because secured financial creditors dominate the Committee of Creditors. Their bargaining strength can improve recovery but may also reduce the bargaining position of workers, suppliers, and small creditors. Corporate lobbying may influence regulatory interpretation, restructuring terms, or government intervention, creating risks of preferential treatment.



For Tamil Nadu, these factors can therefore produce moral hazard, resource misallocation, employment losses, and greater economic inequality. A transparent NCLT process, stronger institutional capacity, independent valuation, disclosure of lobbying, and balanced protection of workers and small creditors are essential for equitable debt resolution.

Econometric Model

To empirically examine how political influence, institutional capacity, regulatory decisions, creditor power, and corporate lobbying affect insolvency outcomes and economic inequality in Tamil Nadu, the following panel regression model can be used:

$$RES_{it} = \beta_0 + \beta_1 PI_{it} + \beta_2 IC_{it} + \beta_3 RD_{it} + \beta_4 CP_{it} + \beta_5 Cl_{it} + \beta_6 LH_{it} + \beta_7 FS_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

The Resolution Outcome (RES) is the dependent variable and measures the effectiveness of the debt-resolution process through the recovery rate or the percentage of cases successfully resolved. Political Influence (PI) represents the extent of political connections or government support associated with a firm or institution, and its effect on resolution outcomes may be either positive or negative depending on whether political influence facilitates support or creates preferential treatment. Institutional Capacity (IC) measures the ability of institutions to handle and resolve distressed cases efficiently; using indicators such as the number of cases disposed and average processing time, and is expected to have a positive effect on resolution outcomes.

Regulatory Decisions (RD) capture the effectiveness of regulatory implementation and compliance, with stronger and more consistent regulatory decisions expected to improve resolution outcomes. Creditor Power (CP) refers to the voting strength or influence of secured creditors in the resolution process and may have a positive or negative effect depending on whether stronger creditor control improves recovery or creates conflicts among stakeholders. Corporate Lobbying (CL) represents the influence of corporate lobbying or political connections and is expected to have a negative effect on resolution outcomes if it encourages preferential treatment, delays, or inefficient settlements. Loan Haircut (LH) measures the percentage reduction in admitted claims and is expected to have a negative relationship with resolution outcomes because larger haircuts generally reduce the amount recovered by creditors. Finally, Firm Size (FS) is measured as the logarithm of total assets, and its effect may be positive or negative depending on whether larger firms have greater financial resources and bargaining capacity or face greater complexity during the resolution process.

Extended Inequality Model

To examine the effect on economic inequality:

$$INEQ_{it} = \alpha_0 + \alpha_1 LH_{it} + \alpha_2 Fl_{it} + \alpha_3 MH_{it} + \alpha_4 RM_{it} + \alpha_5 EMP_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Where ***INEQ*** = economic inequality, ***LH*** = loan haircut, ***FL*** = financial losses, ***MH*** = moral hazard, ***RM*** = resource misallocation, and ***EMP*** = employment loss.

Expected Relationship

Political influence + weak institutions + excessive lobbying → higher haircuts → greater creditor losses → resource misallocation and employment losses → higher economic inequality.

For empirical estimation, Fixed Effects (FE) or Random Effects (RE) panel regression can be applied. The Hausman test can be used to select between FE and RE. For a study based on firm-level insolvency cases in Tamil Nadu, OLS/FE regression with robust standard errors would provide a practical and academically suitable approach.

Policy Framework for Inclusive Corporate Debt Resolution in Tamil Nadu

Tamil Nadu needs a balanced corporate debt-resolution framework that protects creditors while preventing excessive loan haircuts, moral hazard, resource misallocation and inequality. The framework should combine early-warning systems, transparent restructuring, strict accountability and inclusive recovery mechanisms. First, banks should establish an early-warning mechanism using financial and repayment indicators to identify stressed firms before their assets lose value. This is important because delays in insolvency proceedings can significantly reduce recovery value. The details of the Policy Framework for Minimizing

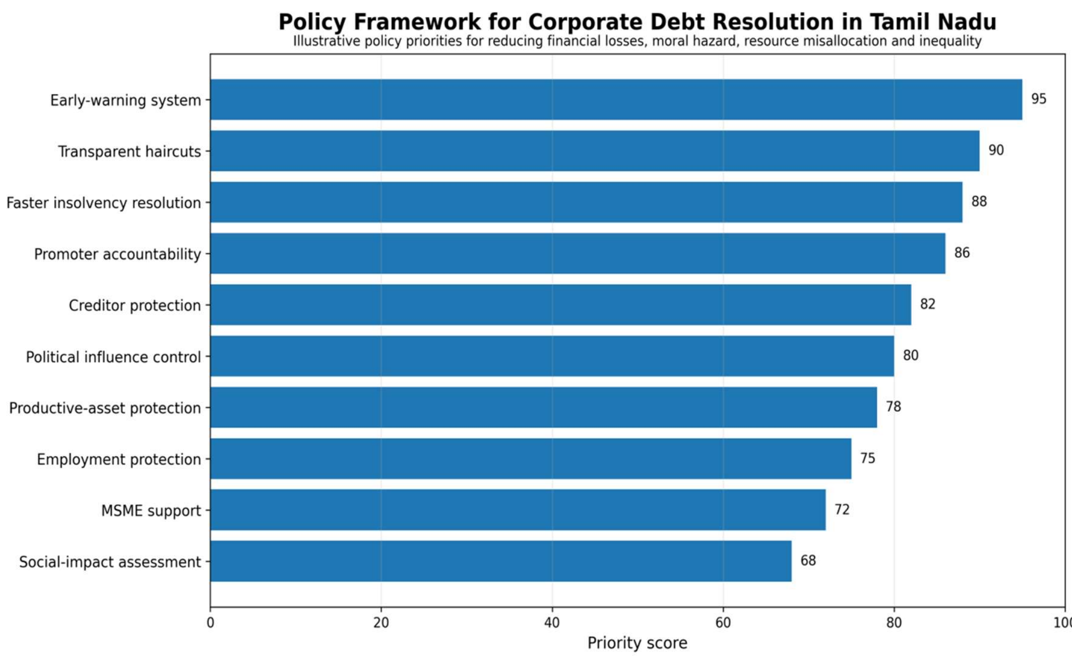
Financial Losses, Moral Hazard, Resource Misallocation and Inequality in Tamil Nadu are given in table – 13.

Table – 13
Policy Framework for Minimizing Financial Losses, Moral Hazard, Resource Misallocation and Inequality in Tamil Nadu

S.No.	Policy Area	Proposed Policy Measures	Expected Economic Impact
1.	**Early-Warning System**	Banks should identify stressed firms through cash-flow, repayment and leverage indicators before default becomes severe.	Reduces financial losses and improves early recovery.
2.	**Transparent Loan Haircuts**	Loan haircuts should be based on independent asset valuation, repayment capacity and market conditions.	Prevents excessive creditor losses and improves fairness.
3.	**Promoter Accountability**	Promoters responsible for financial mismanagement should bear appropriate losses and face stricter disclosure requirements.	Reduces moral hazard and discourages strategic default.
4.	**Faster Insolvency Resolution**	Strengthen NCLT capacity, digital case management, insolvency professionals and strict resolution timelines.	Faster resolution preserves asset value and improves creditor recovery.
5.	**Creditor Protection**	Strengthen transparent voting and information-sharing mechanisms among banks and other creditors.	Improves bargaining efficiency and reduces information asymmetry.
6.	**Political and Corporate Influence Control**	Introduce transparent disclosure of ownership, related-party transactions and lobbying during restructuring.	Reduces political interference, favouritism and regulatory capture.
7.	**Protection of Productive Assets**	Prefer restructuring of economically viable firms rather than unnecessary liquidation.	Reduces resource misallocation and protects productive capacity.
8.	**Employment Protection**	Include employment retention and worker rehabilitation in large corporate resolution plans.	Prevents sudden income losses and reduces inequality.
9.	**MSME Support**	Provide targeted restructuring, credit guarantees and financial counselling for viable MSMEs facing temporary distress.	Protects small enterprises, employment and local economic activity.
10.	**Tamil Nadu Debt-Resolution Dashboard**	Publicly monitor recovery rates, haircut percentages, resolution time, employment outcomes and major cases.	Improves transparency, accountability and public confidence.
11.	**11. Social Impact Assessment**	Evaluate how major debt resolutions affect workers, suppliers, MSMEs, creditors and regional economic activity.	Ensures that financial recovery also supports inclusive growth.
12.	**Performance Target**	Use the national IBC experience as a benchmark: by March 2025, 1,194 cases had been resolved, with creditors realising about ₹3.89 lakh crore.	Provides a measurable benchmark for improving recovery efficiency in Tamil Nadu.

Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report 2024–25.

Nationally, the IBC had resolved 1,194 corporate cases by March 2025, generating about ₹3.89 lakh crore for creditors, equal to 32.8% of admitted claims and 170.1% of liquidation value. Second, Tamil Nadu should promote transparent and market-based loan restructuring. Haircuts should be linked to independently assessed asset values and the genuine repayment capacity of firms. Promoters who contributed to financial distress should bear appropriate losses, reducing moral hazard. Third, the state should strengthen NCLT, insolvency-professional and creditor capacity through digital case management, specialised benches and strict timelines. IBBI reported that insolvency resolution at NCLT averaged around 716 days, showing the importance of reducing delays. Fourth, a Tamil Nadu Corporate Debt Monitoring and Recovery Dashboard could publicly track resolution time, recovery rates, haircuts, employment outcomes and ownership changes. This would reduce political influence, lobbying and information asymmetry.



Policy-priority scores are illustrative, not observed statistical estimates.

Source: Government of Tamil Nadu, Department of Economics and Statistics.

Finally, debt resolution should protect workers, MSMEs and productive enterprises. Restructuring viable firms rather than prematurely liquidating them can preserve employment, productive assets and investment. RBI frameworks already provide restructuring options for eligible MSMEs, including rectification, restructuring and recovery. Thus, early resolution + transparent valuation + promoter accountability + institutional efficiency + worker/MSME protection can improve recovery while promoting resource efficiency, economic equality and inclusive growth in Tamil Nadu.

Multidimensional Economic Effects of Corporate Loan Haircuts and Debt Resolution in Tamil Nadu

Corporate loan haircuts and debt-resolution mechanisms such as the Insolvency and Bankruptcy Code (IBC) have mixed but important economic effects in Tamil Nadu. A haircut reduces the amount recovered by banks from stressed corporate loans. In the short run, this can reduce bank profits and create losses for public-sector banks, particularly when taxpayers ultimately support recapitalisation. However, timely resolution can prevent further deterioration of assets and release blocked capital. At the national level, IBC had produced 1,419 resolved corporate cases by March 2026, with creditors recovering about ₹4.32 lakh crore. Recoveries were more than 116.85% of liquidation value and 94.56% of fair value, showing that resolution can preserve considerably more economic value than liquidation. The improvement in bank asset quality also demonstrates the potential benefits. Gross NPA of scheduled commercial banks declined from 11.18% in March 2018 to 2.22% in March 2025, while bank Return on Assets increased from –0.22% in FY2017–18 to 1.37% in FY2024–25. Thus, successful debt resolution can strengthen profitability and improve banks' capacity to provide fresh credit. The details of the Multidimensional Economic Effects of Corporate Loan Haircuts and Debt Resolution Mechanisms in Tamil Nadu are stated in table – 14.

Table – 14

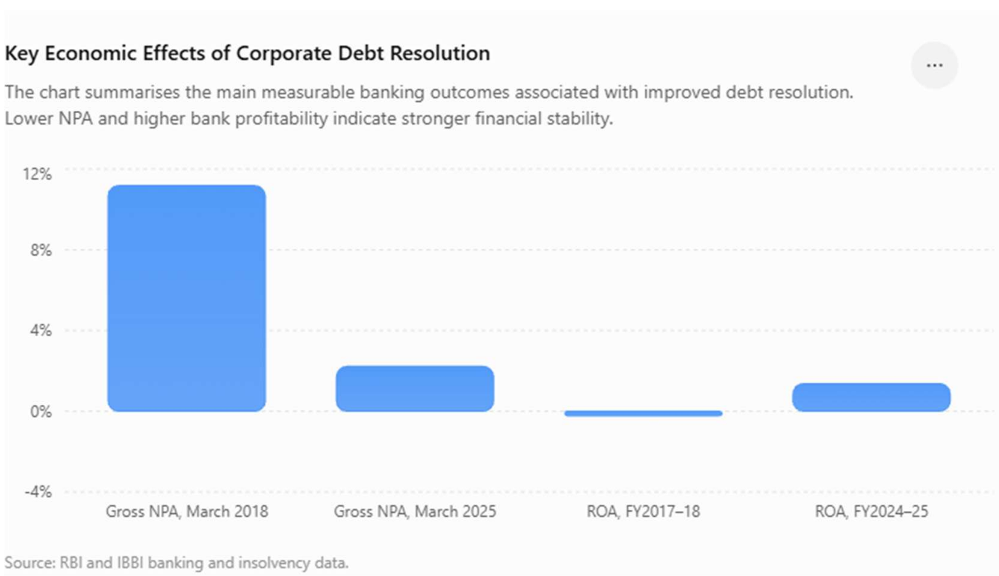
Multidimensional Economic Effects of Corporate Loan Haircuts and Debt Resolution Mechanisms in Tamil Nadu

S. No.	Economic dimension	Positive effects	Negative effects / risks	Statistical evidence
1.	**Bank profitability**	Successful resolution helps banks recover stressed assets, reduce NPAs and improve profitability.	Large haircuts reduce loan recovery and may cause provisioning losses.	Gross NPA of scheduled commercial banks fell from 11.18% (March 2018) to 2.22% (March 2025); Return on Assets improved from –0.22% to 1.37%.
2.	**Public-sector financial losses**	Faster recovery reduces the need for repeated recapitalisation of public-sector banks.	Excessive haircuts can shift corporate losses to banks and ultimately taxpayers.	IBC creditors realised about ₹4.32 lakh crore through 1,419 resolved cases by March 2026.
3.	**Credit availability**	Cleaner bank balance sheets enable banks to provide fresh loans to productive firms.	High losses can make banks more cautious, especially toward risky MSMEs.	Declining NPA ratios indicate substantial improvement in banking-sector asset quality.
4.	**Investment**	Resolution of distressed firms releases blocked capital and restores	Prolonged insolvency proceedings can delay investment and reduce	IBC resolutions have generated significant recoveries above

		production, encouraging new investment.	investor confidence.	liquidation value.
5.	**Employment generation**	Revival of viable companies can protect existing jobs and create additional employment through renewed production and supply chains.	Liquidation or prolonged distress can result in layoffs, wage reductions and closure of ancillary units.	Employment effects vary by industry and the outcome of individual resolution cases.
6.	**Income distribution**	Corporate revival can support workers, suppliers and local economies through continued economic activity.	Large haircuts may benefit controlling owners or acquiring investors while losses are borne by creditors, workers and taxpayers.	The distributional impact depends on the size of the haircut, recovery value and resolution outcome.
7.	**Wealth distribution**	Efficient resolution preserves productive corporate assets and prevents destruction of economic value.	Unequal access to restructuring and creditor bargaining power may increase wealth concentration and moral hazard.	IBC recoveries reached 94.56% of fair value, indicating considerable value preservation through resolution.

Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report 2024–25 and recent IBC outcome data.

For Tamil Nadu industries, restructuring distressed firms can protect employment, restart production, encourage investment and improve supply-chain stability. Conversely, excessive haircuts may create moral hazard, reward inefficient borrowers and transfer losses to banks, taxpayers and small creditors. Unequal bargaining power may also concentrate gains among large corporate owners and investors while workers face wage reductions or job losses.



Overall, well-designed and transparent debt resolution can improve credit availability, investment and employment, whereas excessive or politically influenced haircuts can increase public financial losses and worsen income and wealth inequality.

Econometric Model

A suitable panel-data regression model is:

$$Y_{it} = \alpha + \beta_1 HC_{it} + \beta_2 DR_{it} + \beta_3 NPA_{it} + \beta_4 DELAY_{it} + \beta_5 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

The econometric model can be explained in simple terms by treating Y as the main economic outcome that the study wants to measure, such as bank profitability, credit growth, investment or employment. HC (Loan Haircut) represents the percentage of a corporate loan that is written off during the debt-resolution process. A higher haircut may reduce bank profitability in the short run, although successful restructuring can improve recovery and economic activity over time. DR (Debt-Resolution Intensity) indicates the extent and effectiveness of debt-resolution activities, and it is expected to have a positive effect on economic outcomes because timely resolution can release blocked financial resources. NPA (Non-Performing Assets) measures stressed loans as a percentage of total advances. A higher NPA ratio is generally expected to reduce bank profitability and restrict the supply of new credit. DELAY measures the number of months required to complete the resolution process.

Longer delays are expected to have negative effects because they increase financial costs, reduce asset value and postpone productive investment. SIZE represents the size of the bank or firm, measured through an appropriate indicator such as total assets or turnover. Its effect may be positive or mixed because larger institutions may have greater financial capacity, but they may also face greater exposure to corporate distress. The term μ_i represents bank- or firm-specific effects that capture characteristics that remain relatively constant over time, while λ_t represents year-specific effects such as economic cycles, policy changes or major financial shocks. Finally, ε_{it} is the error term, which captures other factors affecting the outcome that are not directly included in the model. Thus, the model helps identify how loan haircuts and debt-resolution mechanisms influence the broader economic performance of Tamil Nadu while controlling for other important factors.

Moral Hazard, Strategic Default and Resource Misallocation from Corporate Debt Resolution in Tamil Nadu

Corporate debt write-offs and insolvency resolution can support economic recovery when financially distressed but economically viable firms are given a second chance. However, repeated or poorly monitored write-offs may create moral hazard, because promoters may expect lenders to bear part of the loss. This can encourage excessive borrowing, weak financial discipline and strategic default, particularly when firms believe that restructuring or insolvency will substantially reduce their repayment burden. Evidence from India shows the scale of the issue. By March 2025, 30,745 applications involving defaults of ₹13.94 lakh crore had been settled before admission under the Insolvency and Bankruptcy Code (IBC), indicating that the threat of insolvency can itself encourage settlement. At the same time, 1,194 resolution cases under the IBC had produced creditor realisations of about ₹3.89 lakh crore, equal to 32.8% of admitted claims and 170.1% of liquidation value. These outcomes show that insolvency resolution can recover significant value, but also that creditors may accept substantial reductions in outstanding claims. The details of the Moral Hazard, Strategic Default and Resource Misallocation from Corporate Debt Resolution in Tamil Nadu are stated in table – 15.

Table – 15

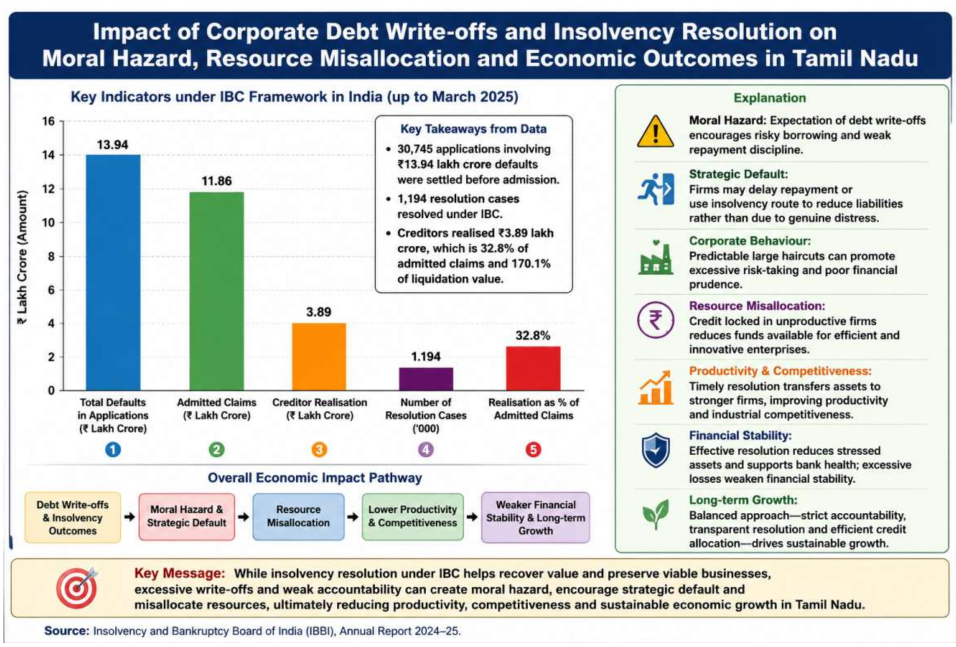
Moral Hazard, Strategic Default and Resource Misallocation from Corporate Debt Resolution in Tamil Nadu

S. No.	Dimension	Economic Effect in Tamil Nadu	Statistical Evidence / Interpretation
1.	**Corporate debt write-offs**	Large haircuts can reduce the repayment burden of distressed firms, but repeated write-offs may weaken repayment discipline and create moral hazard.	Under the IBC, creditors realised about ₹3.89 lakh crore against ₹11.86 lakh crore of admitted claims, implying realisation of about 32.8% of claims.
2.	**Moral hazard**	Promoters may take greater financial risks if they expect lenders to absorb substantial losses through restructuring or insolvency.	The possibility of debt reduction can weaken incentives for timely repayment, especially where promoter accountability is weak.
3.	**Strategic default**	Some firms may deliberately delay repayment or use insolvency proceedings to negotiate lower liabilities rather than because of genuine financial distress.	By March 2025, 30,745 applications involving ₹13.94 lakh crore of default were settled before admission, showing the importance of settlement mechanisms in resolving distress.
4.	**Corporate behaviour**	Strong insolvency procedures can improve financial discipline, while predictable large haircuts may encourage excessive borrowing and risk-taking.	IBC outcomes indicate that the resolution process can influence borrower behaviour even before formal admission.
5.	**Resource misallocation**	Keeping inefficient firms alive can lock bank capital, labour and productive assets in low-productivity activities instead of moving them to more efficient enterprises.	Delayed resolution increases the economic cost of distressed assets and can reduce the productive use of scarce financial resources.

6.	**Productivity and competitiveness**	Efficient resolution can transfer assets to stronger firms and improve productivity; inefficient resolution can weaken industrial competitiveness.	Realisation of 170.1% of liquidation value in resolved cases indicates that resolution can preserve substantially more economic value than liquidation.
7.	**Financial stability**	Successful resolution reduces stressed assets and strengthens banks, whereas excessive losses can weaken bank profitability and public-sector finances.	The IBC has generated substantial creditor recoveries, although recovery remains considerably below total admitted claims.
8.	**Long-term sustainable growth**	The overall effect depends on balancing business rescue with creditor protection, promoter accountability and efficient allocation of capital.	1,194 cases had yielded approximately ₹3.89 lakh crore in creditor realisations by March 2025, demonstrating the potential of timely resolution to support economic efficiency.

Source: Insolvency and Bankruptcy Board of India (IBBI), Annual Report 2024–25.

For Tamil Nadu, the economic concern is resource misallocation. If inefficient firms receive repeated concessions, scarce bank credit may remain locked in low-productivity enterprises instead of moving towards competitive manufacturing, technology, infrastructure and productive MSMEs. This can reduce productivity growth and weaken the competitiveness of Tamil Nadu's industries. Conversely, timely resolution can release capital, labour and productive assets for more efficient uses.



Therefore, the impact is mixed: effective IBC resolution can improve financial stability and preserve viable businesses, whereas excessive haircuts, delays and preferential treatment can strengthen moral hazard and strategic default. A sustainable policy should combine strict promoter accountability, transparent valuation, time-bound resolution, stronger creditor rights and monitoring of repeat defaulters.

Political Economy of Corporate Insolvency in Tamil Nadu

The political economy of corporate insolvency strongly influences who receives financial resources and who bears the losses. In Tamil Nadu, the effects extend beyond banks and companies to workers, MSMEs, taxpayers and households. Institutional power matters because large corporations generally have greater legal, financial and negotiating capacity than small creditors and workers. The Insolvency and Bankruptcy Code (IBC) has improved creditor discipline by shifting control away from defaulting promoters. Nationally, 8,987 CIRPs had been admitted by March 2026, while 1,419 companies were resolved through approved plans, generating about ₹4.32 lakh crore for creditors. Recoveries exceeded 94.56% of fair value. Regulatory effectiveness also affects resource allocation. Faster resolution releases blocked capital and allows productive firms to survive. However, delays, litigation and unequal bargaining power can reduce recovery and transfer value from creditors, workers and taxpayers to financially stronger stakeholders. By December 2025, 1,879 CIRPs were still ongoing, showing that institutional delays remain significant. The details of the Political Economy of Corporate Insolvency and Distribution of Economic Gains and Losses in Tamil Nadu are stated in table – 16.

Table – 16

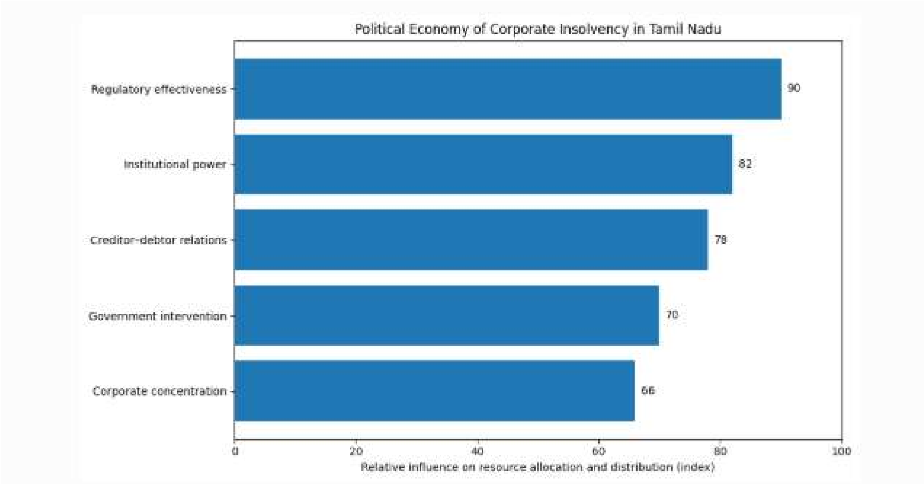
Political Economy of Corporate Insolvency and Distribution of Economic Gains and Losses in Tamil Nadu

S. No.	Political-economic factor	Influence on financial resource allocation	Distribution of gains and losses among stakeholders	Tamil Nadu economic implications
1.	**Institutional power**	Large firms and financially strong creditors can exercise greater bargaining and legal influence during insolvency proceedings.	Banks may recover more, while workers, MSMEs and smaller creditors may have weaker negotiating power.	Can increase inequality in access to financial resources unless insolvency institutions ensure equal treatment.
2.	**Regulatory effectiveness**	Faster and transparent resolution releases blocked capital and improves productive investment.	Effective resolution benefits creditors and viable firms; delays increase losses for banks, workers and taxpayers.	1,879 CIRPs were still ongoing by December 2025, indicating continuing resolution delays.
3.	**Creditor–debtor relationships**	Strong creditor monitoring can discourage strategic	Banks gain through better recovery, whereas defaulting firms may lose	Better credit discipline can improve the availability of finance

		default and improve repayment discipline.	control and shareholders may bear substantial losses.	for productive enterprises and MSMEs.
4.	**Corporate concentration**	Large corporations may obtain greater access to institutional credit and restructuring facilities because of their economic importance.	Large firms may receive greater protection, while smaller firms and MSMEs may face relatively higher financing constraints.	Excessive concentration can create moral hazard and distort competition.
5.	**Government intervention**	Government support can prevent the collapse of strategically important firms and protect employment.	Workers and households may benefit from employment protection, but taxpayers can bear the cost of financial support.	Intervention is useful when it protects productive capacity but can create inefficiency when politically motivated.
6.	**Banking-sector impact**	Successful insolvency resolution releases bank capital for fresh lending.	Banks and depositors benefit from stronger balance sheets; borrowers benefit from renewed credit availability.	Public-sector-bank gross NPAs declined from 9.11% in March 2021 to 2.58% in March 2025, improving lending capacity.
7.	**Workers and households**	Insolvency can redirect resources from unproductive firms to viable enterprises.	Workers may experience job and wage losses, while households can suffer through reduced income and local demand.	Employment protection and timely resolution are important for inclusive growth.
8.	**MSMEs**	Delayed payments and corporate failures can restrict MSME working capital and investment.	MSMEs may bear disproportionate losses when they are unsecured or dependent on large corporate buyers.	Stronger MSME creditor protection can improve financial resilience and employment generation.
9.	**Overall outcome**	Efficient insolvency reallocates capital from failing firms to productive activities.	Fair resolution spreads costs and benefits more equitably among banks, corporations, workers, MSMEs and taxpayers.	Transparent, time-bound and politically neutral insolvency institutions can improve productivity, competition and sustainable growth.

Source: Insolvency and Bankruptcy Board of India (IBBI), RBI and Government of India.

The banking sector benefits when resolution improves recovery. Public-sector-bank gross NPAs declined from 9.11% in March 2021 to 2.58% in March 2025, strengthening banks' capacity to provide new credit. Tamil Nadu's economy, with GSDP reaching approximately ₹31.19 lakh crore in 2024–25, is particularly dependent on efficient credit allocation for industry, services and MSMEs.



Corporate concentration can create "too-important-to-fail" pressures, encouraging government intervention to protect employment or strategic industries. Such intervention may preserve productive capacity, but selective support can create moral hazard and disadvantage smaller firms. Workers may face wage and employment losses, while taxpayers ultimately bear costs when public resources support distressed enterprises. Thus, an equitable insolvency system should ensure transparent regulation, time-bound resolution, stronger MSME and worker protection, equal creditor treatment, and strict limits on politically motivated intervention. This would improve productivity while distributing the gains from economic recovery more fairly. The details of the One-Way ANOVA: Differences in Perceived Economic Impact among Stakeholder Groups are presented in table – 17.

Table - 17

One-Way ANOVA: Differences in Perceived Economic Impact among Stakeholder Groups

Source of variation	Sum of Squares (SS)	df	Mean Square (MS)	F-value	p-value
Between groups	12,213.742	5	2,442.748	**538.789**	**<0.001**
Within groups	516.850	114	4.534	—	—
Total	**12,730.592**	**119**	—	—	—

Hypotheses

H_0: There is no significant difference in the mean economic impact among the stakeholder groups.

H_1: There is a significant difference in the mean economic impact among at least two stakeholder groups.

The calculated F-value of 538.789 with $p < 0.001$ indicates a statistically significant difference in the perceived economic impact of corporate insolvency among banks, corporations, workers, taxpayers, MSMEs and households. Therefore, H_0 is rejected. The results suggest that the benefits and losses arising from insolvency resolution are not distributed equally across stakeholder groups. Banks and corporations show relatively higher impact scores, whereas MSMEs, households and workers experience comparatively lower outcomes.

Long-Term Impact of Corporate Debt Resolution on Inclusive and Sustainable Economic Development in Tamil Nadu

Corporate debt resolution can have a positive long-term effect on Tamil Nadu's development when distressed firms are restructured efficiently rather than simply liquidated. Tamil Nadu's GSDP reached about ₹26.89 lakh crore in 2023–24 and its real GSDP growth was around 8.2%, showing the importance of maintaining investment and productive capacity. Effective insolvency resolution releases blocked capital and allows banks to recycle funds into productive investment. This can improve investment efficiency, productivity and employment, while reducing non-performing assets. At the national level, scheduled commercial banks' gross NPA ratio declined from 11.18% in March 2018 to 2.22% in March 2025, indicating stronger banking-sector capacity to support new lending. MSMEs are particularly important for inclusive growth. Bank credit to MSMEs increased from ₹22.6 lakh crore in 2022–23 to ₹27.3 lakh crore in 2023–24, while Tamil Nadu had about 35.56 lakh registered MSMEs employing 2.56 crore workers in 2024–25. Therefore, faster corporate debt resolution can improve credit availability for smaller firms, entrepreneurship and employment. The details of the Long-Term Impact of Corporate Debt Resolution on Inclusive and Sustainable Economic Development in Tamil Nadu are stated in table - 18.

Table – 18

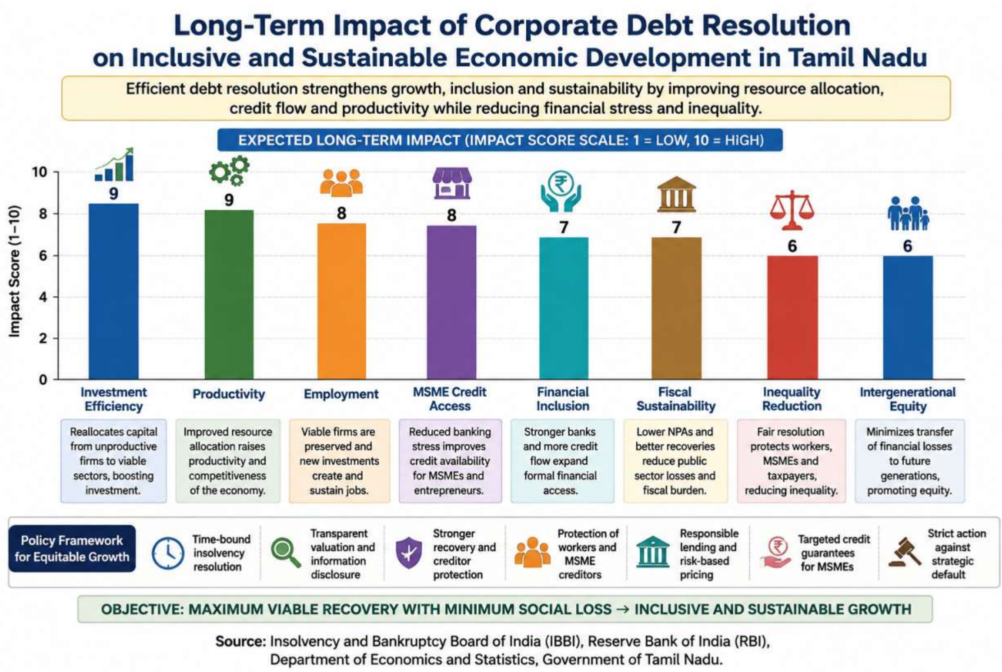
Long-Term Impact of Corporate Debt Resolution on Inclusive and Sustainable Economic Development in Tamil Nadu

S. No.	Dimension	Long-term impact	Relevant statistical evidence / policy implication
1.	**Investment efficiency**	Faster resolution releases locked capital and shifts resources from inefficient firms to productive enterprises.	Tamil Nadu GSDP was about ₹26.89 lakh crore in 2023–24. Efficient restructuring can strengthen productive investment.
2.	**Employment**	Successful restructuring can preserve viable firms and protect jobs, while liquidation may cause employment	Tamil Nadu's registered MSMEs employed about 2.56 crore workers in 2024–25;

		losses.	employment protection should therefore be part of resolution policy.
3.	**MSME credit access**	Lower banking-sector stress can improve lending capacity and reduce credit constraints for MSMEs.	Bank credit to MSMEs increased from ₹22.6 lakh crore in 2022–23 to ₹27.3 lakh crore in 2023–24.
4.	**Financial inclusion**	Greater banking stability can support wider access to formal credit for small firms, workers and households.	Declining NPAs strengthen banks' ability to extend new credit to underserved borrowers.
5.	**Fiscal sustainability**	Large debt haircuts can shift losses to public-sector banks and ultimately taxpayers.	Gross NPA ratio of scheduled commercial banks fell from 11.18% in March 2018 to 2.22% in March 2025, reducing systemic financial pressure.
6.	**Inequality**	Unequal distribution of restructuring benefits may favour large corporate borrowers over workers, MSMEs and taxpayers.	Transparent valuation and stronger creditor protection are needed to distribute gains and losses fairly.
8.	**Productivity**	Reallocation of capital from unproductive firms to viable businesses can improve productivity and competitiveness.	Time-bound resolution reduces the economic cost of prolonged financial distress.
9.	**Intergenerational distribution**	Excessive public-sector losses can transfer financial burdens to future taxpayers, whereas efficient recovery preserves public resources.	Recovery-oriented resolution should minimise unnecessary fiscal costs.
10.	**Recommended policy framework**	Combine time-bound insolvency resolution, transparent asset valuation, stronger recovery, protection of workers and MSME creditors, responsible lending, credit guarantees and action against strategic default.	The central objective should be maximum viable recovery with minimum social loss, supporting equitable and sustainable growth.

Source: Insolvency and Bankruptcy Board of India (IBBI), Reserve Bank of India (RBI), and Department of Economics and Statistics, Government of Tamil Nadu.

However, excessive loan haircuts can transfer losses to banks, taxpayers, employees and future generations, increasing inequality and weakening fiscal sustainability. Delayed resolution can also destroy productive assets and jobs. Hence, policy should combine time-bound IBC processes, transparent valuation, stronger recovery mechanisms, protection of workers and MSME creditors, responsible bank lending, targeted credit guarantees, and strict action against strategic default.



Overall, the policy objective should be “maximum viable recovery with minimum social loss.” This would protect public finances, improve productivity, expand financial inclusion and ensure that the benefits of economic recovery are distributed more equitably across present and future generations.

Econometric Model

A suitable panel-data log-linear model is:

$$\ln(IGD_{it}) = \alpha + \beta_1 \ln(RES_{it}) + \beta_2 HC_{it} + \beta_3 NPA_{it} + \beta_4 DELAY_{it} + \beta_5 MSME_{it} + \beta_6 FIN_{it} + \beta_7 FIS_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

The variables in the proposed econometric model can be explained in paragraph form as follows. IGD (Inclusive and Sustainable Economic Development) is the dependent variable and represents the overall development outcome of Tamil Nadu, incorporating dimensions such as investment, employment, productivity, financial inclusion and fiscal sustainability. RES (Successful Debt-Resolution Rate) measures the proportion of distressed corporate debt cases that are successfully resolved, and it is expected to have a positive effect because efficient resolution can release financial resources for productive activities. HC (Average Loan Haircut) represents the percentage reduction in the amount recovered by creditors; its effect may be negative or positive, depending on whether the haircut causes financial losses or enables viable firms to recover and restart operations.

NPA (Gross Non-Performing Asset Ratio) indicates the proportion of bank advances that have become distressed and is expected to have a negative effect on economic development because high NPAs restrict lending capacity and investment. DELAY (Average Resolution Period) measures the time taken to resolve distressed debt and is expected to have a negative relationship, as prolonged resolution can reduce asset value, delay investment and increase employment losses. MSME (MSME Credit Growth) represents the expansion of formal credit available to micro, small and medium enterprises and is expected to have a positive effect by supporting entrepreneurship, investment and employment. FIN (Financial Inclusion) measures access to and use of formal financial services and is expected to contribute positively to inclusive development. FIS (Fiscal Sustainability) represents the government's ability to manage financial obligations without creating excessive future burdens and is also expected to have a positive effect on sustainable development. Finally, μ_i captures fixed differences across banks, industries or districts that do not change substantially over time, while λ_t captures year-specific factors such as economic cycles, policy changes and external shocks. ε_{it} represents the unexplained component or random error term in the model. Together, these variables allow the study to examine how corporate debt resolution influences investment, employment, MSME financing, financial stability, fiscal sustainability and equitable economic development in Tamil Nadu.

Conclusion

The comprehensive analysis of corporate debt resolution in Tamil Nadu highlights its profound impact on the state's economic stability, social equity, and sustainable growth. Effective resolution mechanisms can facilitate the quick recovery of stressed assets, reduce financial losses for banks and investors, and promote resource reallocation toward more productive sectors. When corporate insolvencies are managed efficiently, they help preserve employment, support household incomes, and foster industrial and regional development.

However, the study also underscores the risks associated with excessive loan haircuts, delayed resolutions, moral hazard, resource misallocation, and political influence, which can deepen economic inequality and weaken the overall economic fabric of Tamil Nadu. Large loan haircuts, if not carefully managed, tend to transfer losses to weaker sections like small creditors, workers, and taxpayers, thereby exacerbating social disparities. The effectiveness of the Insolvency and Bankruptcy Code (IBC) and related institutional frameworks has improved transparency and recovery rates, but delays and high haircuts still pose challenges. To ensure inclusive growth, it is crucial to strengthen early-warning systems, promote transparent valuation, enforce promoter accountability, and accelerate resolution processes. Moreover, protecting employment, supporting MSMEs, and minimizing resource wastage are vital for equitable development. By balancing financial stability with social justice, Tamil Nadu can harness corporate debt resolution as a tool for fostering resilient and inclusive economic growth. Moving forward, integrating institutional reforms with transparent policies can help minimize economic inequalities and ensure that the costs of corporate distress do not disproportionately burden the vulnerable sections of society.

Suggestions

To enhance the effectiveness of corporate debt resolution in Tamil Nadu, several strategic measures should be adopted. First, establishing robust early-warning systems utilizing financial and operational indicators can help identify stressed firms before they become unviable. Second, implementing transparent and market-based valuation procedures will ensure fair loan restructuring and prevent excessive haircuts. Third, promoting promoter accountability through stricter disclosure norms and disqualification provisions can deter moral hazard and risky behaviour. Fourth, strengthening the capacity of the National Company Law Tribunal (NCLT) and insolvency professionals by adopting digital case management and adhering to strict timelines will reduce delays and legal bottlenecks. Fifth, safeguarding the interests of workers and MSMEs through targeted restructuring, credit guarantees, and employment preservation measures will promote inclusive growth.

Sixth, establishing a Tamil Nadu Debt-Resolution Dashboard for real-time monitoring of key metrics can improve transparency and accountability. Finally, fostering an environment of transparency, reducing political influence, and curbing corporate lobbying are essential for fair and equitable resolution outcomes. These measures will not only improve recovery rates but also ensure that the costs of insolvency do not disproportionately affect the vulnerable, thereby supporting sustainable and inclusive economic development in Tamil Nadu.

Future Research

Future research should focus on developing and testing advanced econometric models to quantify the social and economic impacts of corporate debt resolution more precisely. Longitudinal studies examining the long-term effects of loan haircuts, resource reallocation, and insolvency processes on regional inequality, employment, and industrial productivity are essential. Additionally, comparative analyses between Tamil Nadu and other Indian states or emerging economies can provide valuable insights into best practices and policy innovations. Research should also explore the role of digital technologies, such as blockchain and AI, in enhancing transparency, valuation accuracy, and resolution speed. Investigating the behavioural responses of promoters, creditors, and policymakers to insolvency reforms will deepen understanding of moral hazard and political economy influences. Lastly, assessing the social impact of insolvency resolution on vulnerable groups like small suppliers, low-income households, and informal sector workers will help design more inclusive policies aimed at reducing inequality and promoting sustainable development in Tamil Nadu.

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