Concerns with Banks Recapitalisation

What is the issue?

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- The Centre recently announced the details of recapitalisation plan for PSBs. Click here to know more.
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- While the move has been largely viewed with optimism, there are serious concerns that demand a reassessment.
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What are the benefits?

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- Capital infusion reinforces the Centre’s commitment to support weak public sector banks.
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- This will certainly help them meet the regulatory capital requirement.
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- ON the other hand, it will provide growth capital to the slightly better performing banks.
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- Also, the deadline for resolving the first set of large accounts under IBC is fast approaching (by March, 2018).
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- Given this, capital infusion will give more space for the banks to clean up their balance sheets.
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What are the concerns?

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- 46% more capital has been given to the banks under the RBI’s prompt

corrective action.
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- This is owing to their weak capital and higher NPA levels.
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- This is against the general perception that bigger and better performing banks would be rewarded with more capital.
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- The plan evidently offers a **larger share of capital for weaker banks**.
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- This, in a way, denies the growth capital to more deserving banks.
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- Notably, weak bank's capital ratios have increased beyond the requirement to meet the regulatory threshold.
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- The Centre's approach is only indicative of **higher bad loan provisioning** in the coming quarters.
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- Besides, the recap plan makes some **relaxations** to existing systems.
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- These are in relation with:
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i. closer monitoring of big-ticket loans
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ii. identifying niche areas where a bank has strengths
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iii. restricting corporate exposure to 25%
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iv. a new performance management system
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What should be done?

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- The capital offered should be able to meet the government's **service priorities**.
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- This, in particular, applies to smoother **credit flows to small businesses**.
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- The constitution of the **Banks Board Bureau** was a welcome move in the governance of PSBs.

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- But impact thus far has been very minimal.
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- PJ Nayak committee’s recommendations including giving more **autonomy** to bank boards need to be implemented in true spirit.
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- Thus, a sustained solution lies in taking forward the **structural reforms**.
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- This is even more crucial for the current recapitalisation exercise to pay favourable results.
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Source: Business Line, The Hindu

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