

## PSBs Recapitalisation Plan

### Why in news?

\n\n

\n

- The government recently announced the details of the earlier said Rs. 2.1 lakh crore recapitalisation plan for public sector banks.

\n

- Click [here](#) to know more on the plan.

\n

\n\n

### What are the provisions?

\n\n

\n

- **Package** - The recapitalisation package will be spread across current financial year 2017-18 and the next year 2018-19.

\n

- The government will infuse around Rs 88,000 crore into 20 public sector banks.

\n

- These banks account for more than 80% of the bad loans.

\n

- **Themes** - The plan includes a reforms package across six themes.

\n

- They are:

\n

\n\n

\n

1. customer responsiveness

\n

2. responsible banking

\n

3. credit offtake

\n

4. PSBs as Udyami Mitra (friends of entrepreneurs)

\n

5. deepening financial inclusion and digitalisation

\n

6. developing personnel for brand PSB

\n

\n\n

\n

- The whole-time directors of the PSBs would be assigned theme-wise reforms to oversee.

\n

- Their performance on the themes would be evaluated by the boards of the banks.

\n

- **Differential approach** - The recapitalisation package would follow a differentiated approach for banks.

\n

- The capital infusion for the PSBs would be dependent on banks' performance.

\n

- Accordingly, the government will give more money to the weakest ones.

\n

- These are the 11 lenders under the Reserve Bank of India's *Prompt Corrective Action* (PCA).

\n

- In financial year 2017-18, PCA banks would get around Rs. 50, 000 crore.

\n

- The comparatively healthier non-PCA banks would get around Rs. 35,000 crore.

\n

- **Recapitalisation bonds** - The capital infusion will be done partly by *recapitalisation bonds* and partly by budgetary support.

\n

- The bonds are to have a maturity period of 10-15 years and would be issued in six different slots.

\n

- They will not have a statutory liquidity ratio (SLR) requirement and would be non-tradeable.

\n

- The government has set strict terms for issuing the recapitalisation bonds to PSBs.

\n

- The terms include :

\n

\n\n

- \n
- i. creating a stressed asset management vertical
  - \n
  - ii. tying up with agencies for specialised monitoring of loans above Rs 2.5 billion
  - \n
  - iii. strict surveillance on big loan defaulters
  - \n
  - iv. appointing a whole-time director for monitoring reforms every quarter
  - \n

\n\n

### **Will there be a fiscal impact?**

\n\n

- \n
- There are apprehensions that the recapitalisation bonds would affect the fiscal consolidation efforts by the government.
  - \n
  - The government however assured that it would not have any substantial impact on the fiscal deficit.
  - \n
  - This is because the recapitalisation bonds would be "cash neutral" (does not need net cash for a transaction).
  - \n
  - The fiscal deficit will be impacted only by the interest cost on the bonds that the government pays every year.
  - \n

\n\n

### **What are the benefits?**

\n\n

- \n
- The recapitalisation package will create an incremental **lending capacity** with the banks.
  - \n
  - This is expected to catalyze the revival of the capital investment cycle in the economy.
  - \n
  - Banks will now be sufficiently capitalised to maintain **regulatory capital requirements** and also to lead growth.
  - \n

- Banks would have to subject themselves to reform, become more professional, and do prudent and clean lending.  
\n
- The government would bring out a report card on compliance of these measures.  
\n

\n\n

\n\n

**Source: The Hindu, Business Standard**

\n\n

\n\n

## **Quick Fact**

\n\n

## **Prompt Corrective Action (PCA)**

\n\n

- \n
- PCA is primarily to take appropriate corrective action on weak and troubled banks.  
\n
- The RBI has put in place some trigger points to assess, monitor and control banks.  
\n
- The trigger points are on the basis of CRAR (a metric to measure balance sheet strength), NPA and ROA (return on assets).  
\n
- Based on each trigger point, the banks have to follow a mandatory action plan.  
\n
- RBI could take discretionary action plans too apart from these.  
\n
- RBI has initiated prompt corrective action (PCA) in as many as 11 PSBs.  
\n
- It prohibits them from undertaking fresh business activities such as opening branches, recruiting talent or lending to risky companies.  
\n

\n\n

## **Recapitalisation bonds**

\n\n

\n

- The idea is to borrow from the banks themselves and boost the weaker banks' capital, without immediate demand for direct government budgetary support.

\n

- Banks will subscribe to these bonds as part of their investment portfolio.

\n

- They will use the excess deposits they acquired from the recent demonetisation drive to invest in the bonds.

\n

- The money raised by the government will then be used to infuse fresh equity into weaker banks.

\n

\n\n

\n\n

\n



**SHANKAR**  
**IAS PARLIAMENT**  
*Information is Empowering*