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Raghuram Rajan raps banks for not accepting stressed loan reality.

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Raghuram Rajan said that while the profitability of some banks may be impaired in the short run, the system, once cleaned, will be able to support economic growth in a sustainable and profitable way. (Express Photo)

The Reserve Bank of India (RBI) is trying to identify non-recognisable capital, such as undervalued assets, already on bank balance sheets and could allow some of these to count as capital under Basel norms, provided a bank meets minimum common equity standards, governor [Raghuram Rajan](#) said on Friday.

Delivering the CD Deshmukh lecture at National Council of Applied Economic Research, Rajan said finance minister [Arun Jaitley](#) has indicated he will support public sector banks with capital infusions as needed. “Our estimate is that the support that has been indicated will suffice, especially when coupled with other capital sources that are usually available to banks,” he said.

Under Indradhanush — the government’s plan of reviving public sector banks — state-run banks will receive Rs 70,000 crore of capital spread across four years till FY19. “In sum, we believe enough capital is available,” he said.

The RBI recently asked banks to reclassify certain loans and create sufficient buffers in the form of provisions. These measures have already taken a toll on banks’ profitability in Q3. ICICI Bank’s bad loans rose by Rs 6,544 core in the quarter and more than 60% of it was owing to the reclassification exercise.

Rajan said that while the profitability of some banks may be impaired in the short run, the system, once cleaned, will be able to support economic growth in a sustainable and profitable way.

Criticising lenders’ reluctance to label assets as non-performing, Rajan said the reality is that existing loans will have to be written down significantly because of the changed circumstances since they were sanctioned which include extensive project delays, cost overruns, global overcapacity, and overoptimistic demand projections.

“If loans are written down, the promoter brings in more equity, and other stakeholders like the tariff authorities or the local government chip in, the project may have a strong chance of revival, and the promoter will be incentivised to try his utmost to put it back on track,” he said, adding that “to do all this deep surgery”, the bank has to classify it as an NPA.