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# Budget 2016 to focus on bad banks, recapitalisation: SBI Research

By PTI | Updated: Feb 22, 2016, 03:58 PM IST

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NEW DELHI: The forthcoming Budget is likely to set out a clear agenda for revival of banking sector, including setting up of a 'bad bank' and an aggressive roadmap for recapitalisation, [SBI Research](#) said in a note today.

State Bank of India in a research note said it is "time for a bad bank" as lenders are dealing with close to Rs 6.5 lakh crore of stressed assets, which do not include write-offs of bad debt.

A bad bank purchases or takes over troubled loans and then attempts to restructure and manage these assets in a way that maximises their value.

The report noted that the agenda for revival of banking sector must also include an aggressive roadmap for recapitalisation, bringing down government ownership in PSBs, incentivising public [savings](#), tax breaks for [IFSC](#) banking units and making wilful default a criminal offence.

The government must amend the tax system to ensure the country evolves into a vast integrated domestic market thus reducing its dependency on rest of the world for growth, the report added.

It further said, the government should make a clear communication that it is committed to the path of fiscal consolidation and added that the effective [fiscal deficit](#) for financial year 2016-17 may be set at 3.8 per cent of GDP.

Regarding Reserve Bank's monetary policy stance, it said "we expect an aggressive monetary policy accommodation by RBI after budget and it could be more than 25 bps".

Meanwhile, RBI Governor Raghuram Rajan on February 2 left the key [interest rate](#) unchanged citing [inflation](#) risks and growth concerns, while pegging further easing of monetary policy on government's budget proposals.

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