

# **Banks ask finance ministry to accord recap bonds SLR status**

Mumbai | Published: December 22, 2017 2:54 AM



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As a part of their recommendation to the finance ministry on the structure of the recapitalisation bonds, banks have suggested that bonds should have SLR (statutory liquidity ratio) status and should not have a lock-in period, said sources with direct knowledge of the development. Banks have to maintain a stipulated proportion of their net demand and time liabilities in the form of liquid assets like cash, gold and bonds. This is known as SLR. Treasury bills, government securities issued under the market borrowing programme and market stabilisation bonds form part of the SLR. At present, the SLR is 19.5%. The finance ministry is in the process of finalising the structure of the bonds and had reached out to the public-sector banks for their suggestions and recommendations. These bonds form a part of the government's Rs 2.11 lakh crore recapitalisation programme announced in late October. As per the two-year plan, Rs 1.35 lakh crore will be mobilised through the issuance of recapitalisation bonds and about Rs 58,000 crore by the dilution of government equity in the various public sector banks

(PSBs). The government will provide a budgetary support of Rs 18,139 crore under the existing Indradhanush plan launched in 2015, which was to infuse Rs 70,000 crore in state-run banks over four years.

“The bonds are unlikely to be issued before the fourth quarter. The finance ministry is yet to decide on the structure of the bonds. They had asked for our feedback and we have sent our recommendations,” a senior banker with a large state-run bank said on condition of anonymity. “The SLR status and the absence of a lock-in period will make it easier for the banks to sell the bonds at a later date when they want to monetise it,” another banker with a public-sector lender said.

The government has made it clear that eligibility of banks for the recapitalisation bonds would be a function of their performance, potential and their commitment to initiate reforms to strengthen their operations. Punjab National Bank and Union Bank have recently raised Rs 5,000 crore and Rs 2,000 crore, respectively, through qualified institutional placements of shares. Lenders such as Canara Bank, Bank of Baroda and Bank of India are also looking to raise capital through the same route.