

Capital infusion for state-run banks likely to begin by February

By [Dheeraj Tiwari](#), ET Bureau | Updated: Dec 16, 2017, 03.46 PM IST

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DELHI: The first round of [capital infusion](#) for [state-run banks](#) that was announced recently is likely to take place soon, a senior finance ministry official said.

The government is likely to raise around Rs 70,000 crore by February 2018 as part of the total Rs 1.35 lakh crore to be met through [recapitalisation bonds](#).

A demand has been raised through the second batch of supplementary demands for grants, the official said.

PSB recap: Capital infusion for state-run banks likely to begin by February

"It was already stated that most of the amount will be frontloaded so as to pass on the maximum benefit to the lenders," he said.

In October, the government had announced a Rs 2.11 lakh crore capital infusion plan for state-owned banks to encourage lending and boost investment. Of the total, Rs 58,000 crore is to be raised by the banks themselves.

"The government will directly issue these bonds and the impact on the fiscal will be discounted given the increase in credit growth and subsequent pickup of the economy," the official said.

Recap Plan



Govt. to raise ₹70,000 crore in first tranche of recap bonds

- Govt to directly raise these bonds and take hit on fiscal deficit
- Performing banks to get growth capital



Individual Bank Boards to come out with comprehensive reforms plan

Around 10-12 banks to raise capital through markets

PNB to raise **₹5,000 crore** through QIP

Immediate impact on the budget will be to the extent of interest the govt will have to pay on the bonds



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The immediate impact on the budget will be to the extent of interest the government will have to pay on the bonds.

Cash-rich central public sector enterprises (CPSEs) will be encouraged to subscribe to the bonds besides other financial institutions such as the Life Insurance Corporation of India (LIC).

Another finance ministry official said discussions have been held with all state-run banks on certain key performance areas during PSB Manthan, a two-day conclave for public sector banks. The finance ministry is already holding discussions with state-owned banks on their key financial ratios. "The larger view is that consolidation in PSBs should only happen once we have improved their financials," said the official cited above.

Half a dozen banks are slated to raise capital from the markets mostly through qualified institutional placements (QIPs) in the next two months.

Delhi-based Punjab National Bank already has approval to raise Rs 5,000 crore through this route. The other banks include Bank of Baroda, Bank of India, Union Bank of India and Andhra Bank.

Some experts suggested the government infuse capital first and then ask banks to tap the markets. "It

has been mostly seen that the issue is subscribed by LIC, which is again public money. Once banks are strengthened, they may find more investors," said MP Shorawala, a former independent director with Central Bank of India.

Earlier this year, LIC picked up 38.6% of the total Rs 15,000 crore State Bank of India QIP.