

RBI expects 'significant' improvement in capital position of public sector banks

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Thiruvananthapuram, December 22:

The Centre's Indradhanush plan and recapitalisation could significantly improve the capital position of public sector banks (PSBs), says the RBI in its latest 'Trend and Progress in Banking' report.

PSBs were allowed to raise capital from the markets through follow-on public offers or qualified institutional placement in 2016. Further, they have been given in-principle approval to amalgamate through an alternative mechanism.

Implementation of the liquidity coverage ratio (LCR) was phased in at 60 per cent from January 1, 2015, to reach 100 per cent on January 1, 2019. All categories of banks remained well above the requirement of 10.25 per cent (including the capital conservation buffer for March 2017 and 11.5 per cent for end-March 2019 when Basel III will be fully operational).

Lowest CRAR

Among the bank groups, PSBs had the lowest CRAR, although an improvement has become evident in recent years. Private banks have consistently maintained higher CRAR.

At the aggregate level, growth in non-food credit decelerated for a second year. Credit to industries contracted, with infrastructure most hit. The services sector saw better times, more so in the trade segment, but farm and allied activities and personal suffered.

Housing loans, which account for more than half of the retail loan portfolio, decelerated sharply, attributable to transitory effects of demonetisation and uncertainty over implementation of the Real Estate (Regulation and Development) Act.

Balance sheets too were impacted, leading to a significant increase in low-cost deposits and a concomitant increase in liquidity, which reduced banks' borrowing requirements.

PSBs continued to record net losses during 2016-17, although they moderated in relation to a year ago. The State Bank group incurred losses in contrast to net profit a year ago, whereas nationalised banks reduced their losses year-on-year.

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