

RBI's excess capital should fund PSU banks, ARC: Survey

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NEW DELHI:
RBI is one of

the highly capitalised central banks of the world and the government can redeploy some of its capital for fund infusion in state-owned banks and setting up a public sector asset reconstruction company, Economic Survey 2016-17 said.

"The key principle that should be observed in this process is that the excess capital in the RBI, including that created by demonetisation, is a balance sheet or wealth gain and not an income gain. Hence, the uses to which this is put should be of a balance sheet nature," according to the Survey tabled in Parliament today.

Observing that there is no particular reason why this extra capital should be kept with the RBI, it said it is one of the most highly capitalised central banks in the world.

Even at current levels, the RBI is already exceptionally highly capitalised and so, it would seem to be more productive to redeploy some of this capital in other ways, the Survey added.

"Assuming that the RBI returns Rs 4 lakh crore of capital to the government, what are the uses to which this capital can be put? It could be used in several good ways...first for recapitalizing the banks and/or recapitalizing a Public Sector Asset Rehabilitation Agency (PARA)," it said.

Second, for extinguishing debt to demonstrate that the government is serious about a strong public sector fiscal position.



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"It cannot be emphasized enough that any strategy to use the excess capital must be done carefully that in no way undermines or circumvents the relevant laws. It must also be done with the full cooperation of the RBI to ensure that the RBI's independence and credibility are in no way undermined," it said.