

# Govt ties recapitalisation of Public Sector Banks to action on reforms agenda

By [Dheeraj Tiwari](#), ET Bureau | Jan 02, 2018, 06.11 AM IST

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Comments

North Block will soon announce a reforms roadmap for state-run banks,



*Fund infusion will depend on the adoption of reforms and performance. Govt will look to merge weak banks if there is no improvement in performance.*

tying specific milestones or performance parameters to the funds the lenders would receive as part of the Rs 2.1-lakh-crore federal re-capitalisation plan. The final reforms blueprint will have about 35 action points, including customer services.

Some of the lenders must get the reforms plans approved by their respective boards. "The reforms process was kick-started through the PSB (Public Sector Bank) Manthan, and the banks themselves have formulated these suggestions," a senior government official told ET.

While announcing the capital infusion plan in October, the finance ministry had said that the proposed re-capitalisation would entail significant reforms for the lenders that have a piling mountain of bad debt to overhaul.

Other action points on the reforms agenda include rationalisation of branches, common customer services norms, setting up information utilities to monitor large value loans, and co-ordination mechanism among state-run lenders for consortium loans.

"For some banks, there are individual action points like focus on certain sectors for credit growth. They will develop expertise in these areas," the above cited official said. The government has already said it does not want all [public sector banks](#) to be doing the same thing.

The reforms also draw heavily upon the two-day banking conclave of state-run lenders, 'PSB Manthan', held in November last year.



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A senior bank executive said that the key groups formed during PSB Manthan have submitted their report and the government would issue directions soon.

# The New Rulebook

**Govt finalises reforms agenda for state-run banks**

**Banks to be told to work on:**

- Rationalisation of branches
- Common customer services norms
- Information utilities for monitoring large loans
- Coordination mechanism for consortium loans

**Some banks may get tailored action points**

**Reform plan also draws from recent PSB conclave**

**Govt's ₹2.1 lakh-crore PSB recap plan to be linked to performance of banks**

"There are some suggestions, made in the past by the Banks Board Bureau, that may also get incorporated," he said. The six key groups have provided suggestions for responsible and responsive banking, enhanced credit offtake, MSME lending, deepening financial

inclusion, and [NPA](#) resolution.

Last week, the government infused Rs 7,577 crore in six banks, including IDBI, Central Bank of India, Dena Bank and UCO Bank, which urgently needed capital.

Further infusion will depend on the adoption of reforms and performance. The government will look to merge weak banks if there is no improvement in performance.

"We want to give banks another quarter to improve their financials. For performing banks, growth capital will be allocated. Once this is implemented, the government will look at consolidation avenues," said another finance ministry official.

The Reserve Bank of India has said in its Financial Stability Report (FSR) that the gross NPA ratio of all scheduled Commercial Banks (SCBs) may increase from 9.6% in March 2017 to 10.2% by March 2018.

New Delhi is of the view that it cannot go on infusing capital in state-run banks while lenders continue to function the way they have.