

# Centre's right hand takes away what left gives PSBs

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Public sector banks' dividend, tax payout exceed the recap money received

**Mumbai, April 26:** Public sector banks' experience of recapitalisation by the government reflects a classic illustration of the saying 'the left hand gives, the right hand takes away'.

That's because the government has taken away more by way of dividend and taxes from PSBs than it has given through recapitalisation.

A report by the economic research department of the State Bank of India noted that during the period FY06-FY17, the cumulative capital infusion into PSBs was Rs. 1.29 lakh crore, but the dividend payout (at 20 per cent) by PSBs was about Rs. 75,000 crore and the cumulative income tax paid about Rs. 1.50 lakh crore.

"The government has estimated capital requirement (excluding internal generated profit) for the next four years (till FY19) at about Rs. 1,80,000 crore. However, the present requirement has increased due to deteriorating asset quality of the banks," the report titled 'Ecoflash' said.

In view of the scarcity of funds for capital infusion, the government has asked banks to explore other alternatives to raise capital, it noted.

## Alternative measures

The measures suggested include sale of non-core assets, higher retained earnings, monetisation of real estate assets, raising capital from the market subject to limits, issuance of shares with Differential Voting Rights, and capital conservation through internal mechanism.

On cross-country capital infusion in banks, the report said that according to the limited information in the public domain, China had injected \$127 billion into the banking system during 2004-07, while the US Fed injected \$2.27 trillion following the 2008 crisis.

In contrast, India injected only \$17 billion.

According to Ecoflash, empirical evidence suggests there are definite scale economies in banking when recapitalisation is introduced.

A study by Timotej Homar, on European banks between 2000 and 2013, indicated that banks that received sufficiently large recapitalisation increase lending, raised additional funding and cleaned up their balance sheets.

In contrast, banks that receive small recapitalisation relative to their capital shortfall reduced lending, shrunk their risk weighted assets and suffered a drop in deposits and interbank borrowing.

Banks may be moving closer to the end of the deteriorating asset quality cycle, the report said.

Referring to a 2014 study of 100 banking crises by economists Kenneth Rogoff and Carmen Reinhart, which notes that the median is about 6.5 years to resolve the crisis, the report said that if this applied to India, and if 2011-2012 is taken as the starting point, “the good news may start trickling in... from 2018.”

“However, if we... tackle the (asset) resolution problem quickly and decisively, we can hasten the process to 2017 itself.”

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