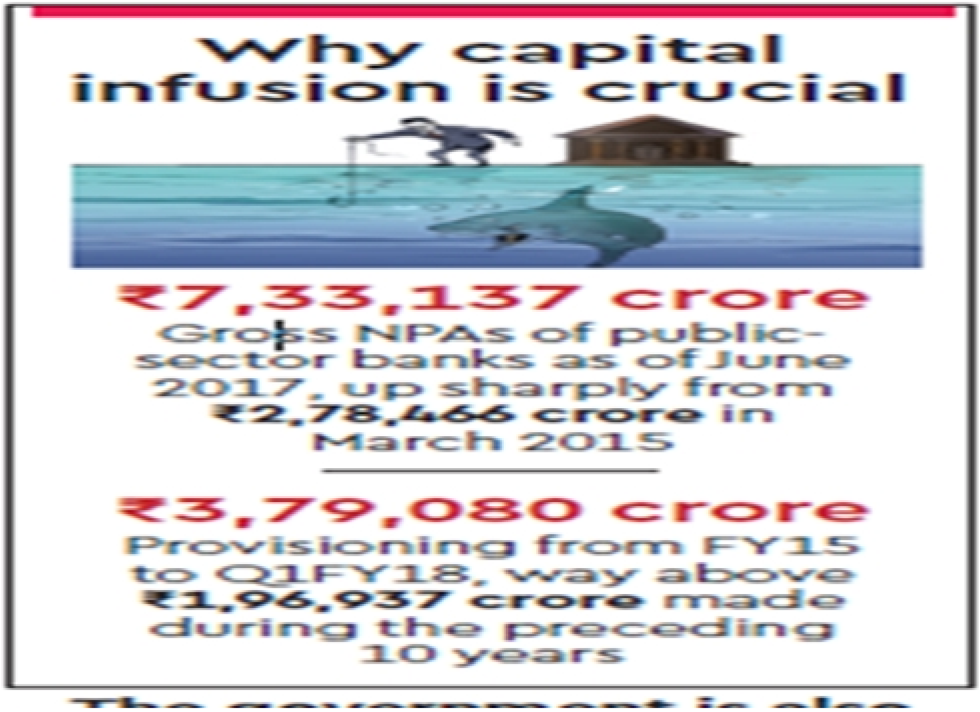
PSB recapitalisation: After Centre allocates Rs 2.11 lakh cr, here is the critical next step RBI will take

By: Banikinkar Pattanayak | New Delhi | Published: October 31, 2017 6:32 AM

Assessment to include PSBs' provisioning requirements, capital adequacy and size (Reuters)

The Reserve Bank of India (RBI) has been tasked with making an assessment of the capital requirement of various public sector banks (PSBs), an exercise that is critical to the implementation of the government's ambitious Rs 2.11 lakh crore recapitalisation plan over two years. "Instead of the PSBs placing requests with the government for capital, the RBI will assess the capital needs of each PSB, factoring in provisioning requirements, capital adequacy, size and other issues, and inform the government. Finally, the government will take a call, based on the RBI suggestion," a senior finance ministry official told FE. The government is also considering giving statutory liquidity ratio status to recapitalisation bonds later. As more and more loan default cases are admitted by the National Company Law Tribunal (apart from the dozen large ones earlier recommended by the RBI) for time-bound resolution under the new insolvency law, the capital requirement assessment could also factor in potential losses in such accounts.



The assessment by the RBI assumes importance, as chief economic advisor Arvind Subramanian last week favoured selective and incentive-based capital infusion, directing it to those banks “where the bank for buck in terms of new credit creation will be maximum”. He suggested “recapitalising the unviable banks only to the extent necessary to finance their current balance sheet size while explicitly not providing for their growth”. If only relatively strong banks get growth capital, it could ultimately lead to a sort of “stealth consolidation” where weak, small state-run lenders would be easy targets of acquisition or be forced to consider mergers with other PSBs to acquire scale and compete better. Although recapitalisation will precede both consolidation and the government’s stake dilution in PSBs, the centre is serious about paring down its stake in those banks where its shareholding is above 75%. And most of these are small banks. Former RBI governor YV Reddy had also argued in favour of shrinking or narrowing the scope of the unviable banks. Of the Rs 25,000 crore allocated to around a dozen PSBs in 2016-17 under the Indradhanush scheme, the government released Rs 7,575 crore to State Bank of

India, followed by Indian Overseas Bank (Rs 3,101 crore), Punjab National Bank (Rs 2,816 crore), Bank of India (Rs 1,784 crore) and Central Bank of India (Rs 1,729 crore). In 2015-16, the government had provided Rs 25,000 crore to 19 PSBs.

Gross non-performing assets of PSBs rose from 5.4% of their gross advances in March 2015 to 13.7% by June 2017. Consequently, provisioning against expected losses grew substantially, making capital infusion by the government so important. Between FY15 and Q1FY18, the provisioning of Rs 3,79,080 crore was made, way above the Rs 1,96,937 crore made during the preceding 10 years. Of the Rs 2.11 lakh crore recapitalisation plan approved by the government last week, Rs 1,35,000 crore will be mobilised through recapitalisation bonds and around Rs 58,000 crore through the dilution of government equity in various PSBs. The government will provide a budgetary support of Rs 18,139 crore under the existing Indradhanush plan (excluding the Rs 1,861 crore already provided this fiscal). The infusion will be front-loaded. As for consolidation, the Cabinet in August had approved an “alternative mechanism” under which an inter-ministerial panel will be set up to oversee the merger of PSBs.