

## Recapitalisation bonds for reviving PSU banks won't have same tenure

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The Union government is mulling different tenures for its Rs 1.35-trillion recapitalisation bonds for reviving public sector banks.

In doing so, the government may follow a different practice than the one adopted in its previous recapitalisation bond exercise in 1993-94 when it had a fixed tenure for all the bonds before they were converted into perpetual bonds.

"The recapitalisation bonds may likely have different tenures so that when the redemption of bonds takes place, the government doesn't have to pay the entire amount at one go to the banks," said a senior finance ministry official.

The Finance Ministry secured the Parliament's nod earlier this month to spend Rs 800 billion extra this financial year to recapitalise state-owned banks through bonds. In October, Finance Minister Arun Jaitley had announced the Rs 1.35-trillion bank recapitalisation bond programme to help public sector banks come out of the spiralling non-performing asset mess.

During 1993-94, the Union government contributed Rs 57 billion as equity to recapitalise public sector banks and issued 10 per cent Government of India Nationalised Banks' Recapitalisation Bonds, 2006, in January 1994. The banks, in turn, were required to invest the government's capital subscription in these bonds.

The bonds carried an interest rate of 10 per cent per annum required to be paid at half-yearly intervals. The bonds were transferable and had non-SLR (statutory liquidity ratio) status. However, during 2006-07, the bonds were converted into tradable SLR-eligible government dated securities.

During the present recapitalisation exercise, the bonds will have non-SLR status and will be non-tradable. The SLR is a portion of deposits that banks need to invest in government securities. SLR status to any instrument provides a traceability option and they can be traded on the secondary market. The issuance of these bonds will be front-loaded.

The Rs 1.35-trillion bank recapitalisation bonds, to be issued over this financial year and the next, would be part of a larger Rs 2.11-trillion bank recapitalisation programme. Apart from the recapitalisation bonds, the Centre will spend Rs 180 billion this year and the next, and the rest Rs 580 billion would be mobilised from the market by the banks.