

# Public sector banks may seek early recapitalisation on new NPA rule

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# Stringent RBI norm, requiring stiff provisioning, may push banks to the edge on core capital

**MUMBAI, MAY 13**

The Reserve Bank of India's revised framework for resolution of stressed assets may lead to public sector banks calling for an earlier recapitalisation by the government. Banks are making huge provisions after asset downgrades in the January-March 2018 quarter, when the new framework was implemented.

The resolution framework does not brook even a day's default in loan repayment. In case of default, banks are required to set in motion a resolution action, which has provisioning implications.

On February 12, the RBI announced its revised framework for resolution of stressed assets, after the Government, on January 24, said it would infuse ₹88,139 crore into PSBs. This is in addition to the budgetary outlay for FY19 (announced on February 1) of ₹65,000 crore.

The loan-loss provisioning has stoked fears among bankers about the possibility of PSBs hitting, if not breaching, the minimum regulatory (Common Equity Tier-1 or core) capital threshold.

Banks are required to maintain a core capital of 7.375 per cent of their risk-weighted assets (RWAs) as on March-end 2018. Depending on the riskiness of an asset class (assigned in the form of a risk weight), a bank maintains different levels of capital to protect itself from potential loan losses.

Breaching the CET-1 threshold has implications for banks: Their wholesale borrowing cost goes up in the domestic and international financial markets.

Among the seven PSBs that have declared results so far, Allahabad Bank, with a CET-1 ratio of 5.57 per cent, has breached the minimum threshold.

The CET-1 of Oriental Bank of Commerce (7.46 per cent) and Union Bank of India (7.60 per cent) are a shade above the regulatory requirement of 7.375 per cent. "In FY18, PSBs received capital infusion from the government towards the end of the financial year. But, now, with some of these banks either breaching or coming close to the breach point, they will need to raise capital early this financial year (FY19).

"Given their weak financial position, tapping the capital market at beaten down valuations is not a good option. Hence, the government will need to chip in with the budgeted monies upfront this year to shore up the PSBs' CET-1 ratio," said a senior public sector bank official.

"The RBI's announcement in February came after the government had already budgeted for capital infusion in PSBs. The Government may, thus, have to revisit the budgetary allocation for PSB capital support for a possible enhancement," said a credit rating agency official.

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