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# PNB, other PSBs may get Rs 8,000 crore lifeline

BY [DHEERAJ TIWARI](#), ET BUREAU | UPDATED: JUL 17, 2018, 06.10 AM IST

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NEW DELHI: The government may infuse about Rs 8,000 crore in five or six state-run banks that are likely to fall short of regulatory capital requirements, a senior finance ministry official said. These banks may include [Nirav Modi](#) scam-hit Punjab National Bank.

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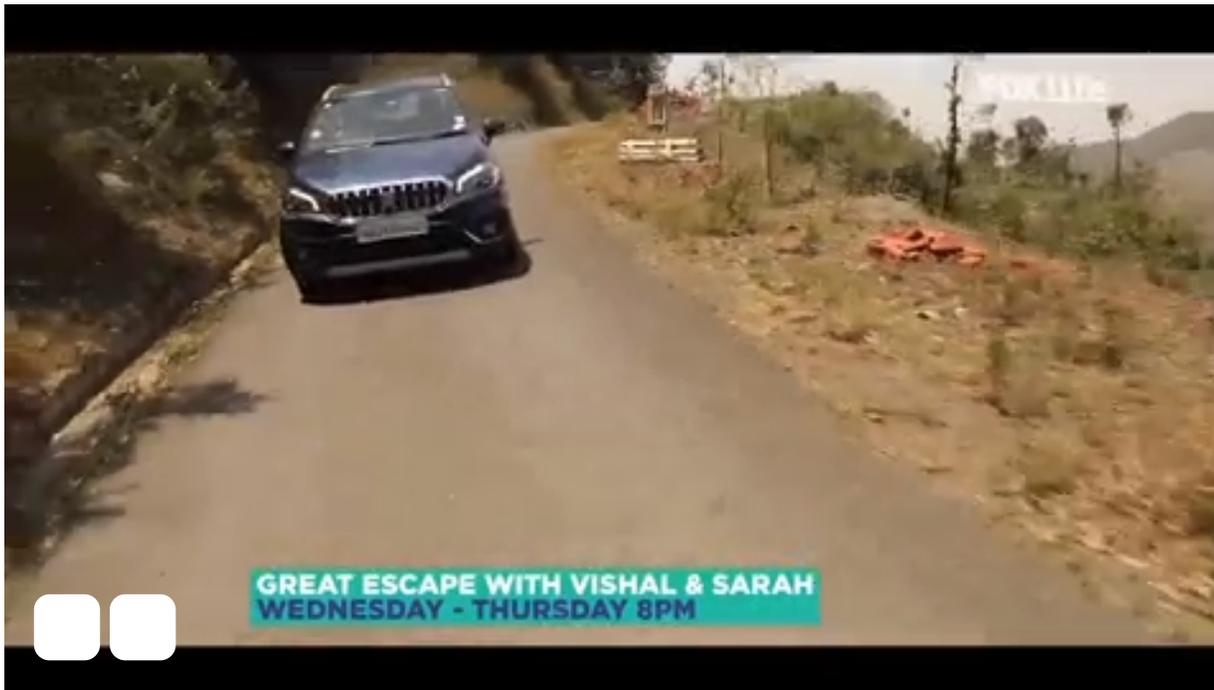
“There are some banks that have issued additional tier 1 capital [bonds](#) and the interest payments are due. Now if they don't meet the regulatory capital norms, they will not be allowed to make such payments,” the official said. The government cannot allow public sector banks to default on such payments, which will impact their rating, the official said.

Banks raise capital through AT1 bonds, which are perpetual in nature and therefore provide higher interest rates to investors. A high level of bad loans and widening losses have made it difficult for banks to service these bonds, raising the risk of default.

Some banks that came under the [Reserve Bank](#) of India's prompt corrective action (PCA) framework will also benefit from this tranche of capital infusion, said another official. The PCA framework is meant to encourage banks to avoid certain riskier activities and focus on conserving capital so that their balance sheets can become stronger.

“These banks had issued upper tier II bonds and the interest payments are also linked to statutory capital ratios. We are doing an assessment of their requirements,” the official added.

Earlier this year, the government had asked banks under PCA to recall AT 1 bonds. Lenders that have recalled these instruments include Oriental Bank of Commerce and Bank of Maharashtra.



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Despite recapitalisation, of the 15 public sector banks that have declared their results for FY18, the tier 1 capital position reported by only five is close to the minimum regulatory requirement of 7%, according to a recent report by rating company ICRA.

“The coupon servicing ability for these weak banks is now contingent on their ability to raise capital immediately before their coupon payment due dates,” the report had said. Public sector banks had Rs 63,595 crore of such debt capital instruments as of April 1, of which Rs 25,831 crore was issued by 11 banks currently under PCA, ICRA said.

In January, the government announced Rs 88,000 crore of capital support to 20 state-run banks for FY18 while prescribing a reforms package to make them more accountable.

Of this amount, Rs 80,000 crore was through recapitalisation bonds and Rs 8,139 crore as budgetary support, while banks were to raise Rs 10,312 crore from the market.

The infusion is part of a Rs 2.11lakh crore plan announced last October. The government will provide Rs 1.35 lakh crore through recapitalisation bonds, while banks will need to raise Rs 58,000 crore on their own.

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