PSU bank recapitalisation: Where will government get Rs 48,000 crore for capital infusion?

By: Eram Tafsir | Updated: February 21, 2019 5:48 PM

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Raising question on the availability of funds required by the government for bank recapitalisation, CARE Ratings said that it is not clear where the funds will be allocated from. It could be from the interim dividend announced a couple of days back or through the RBIreserves, it added.

The central government on Wednesday announced the infusion of Rs 48,239 crore for recapitalisation of the public sector banks. The move has been taken to strengthen the financial performance of these banks and help them deal with the central bank's prompt corrective action (PCA) plan.

"No such provision for recapitalization was made in the Budget 2019-20, therefore it is not clear if the recapitalization will happen this year or in FY20," the rating agency said.

The PSU banks disproportionately share the burden of non-performing assets. Recapitalisation of these banks would help them to extend fresh credit and thus support credit growth, especially for small and micro industries, FICCI-IBA Bankers' Survey had said earlier.

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In 2017, Finance Minister Arun Jaitley promised a total recapitalisation of Rs 2.11 lakh crore for PSU banks, of which, Rs 88,139 crore was infused in FY18. By the end of December 2018, the government has recapitalised PSU banks to the tune of Rs 1,57,476 lakh crore, including the money infused in the previous year FY18.

Former Chief Economic Advisor Arvind Subramanian had previously pointed out that under IMF accounting, it does not add to the fiscal deficit; however, under India's accounting, it does, as the government would be liable to pay the interest and face value of the bonds.

However, being a long-term debt, it provides time to banks to improve their balance sheets by increasing their credit and private investment. As the banks' situation gets better, the government can then retire the debt from the proceeds by selling the bank equities which it purchased earlier.