

Excess RBI capital must be used to recapitalise PSBs: Bank of America Merrill Lynch

PTI Mumbai | Updated on June 11, 2019 Published on June 11, 2019



It also said bank recapitalisation can indirectly support RBI objectives on the liquidity management

The Bimal Jalan panel may recommend transferring up to Rs 3 lakh crore of excess Reserve Bank of India (RBI) capital to the Government and the money should be used for re-capitalising struggling state-run lenders, said a report.

The report of the six-member committee on economic capital framework for RBI headed by former governor Jalan is likely to submit its report by late this month, according to media reports.

Depending on the methodology, the panel will identify Rs 1 to 3 lakh crore or 0.5-1.5 percent of GDP as the excess capital, the report by economists at Bank of America Merrill Lynch (BoA-ML) said in a note on Tuesday.

They opined the high non-performing loans in the system do not require additional capital to be kept aside by the RBI.

“We actually welcome the use of excess RBI capital to recapitalise public sector banks to support economic recovery,” they said. They added that the RBI Act allows for transfer of the capital provided the central bank maintains \$0.7 million of reserves.

“The RBI can monetise net-worth as the creator of money and will not have to resort to selling of G-secs or forex reserves either,” the report said.

If the excess capital is used for re-capitalising state-run lenders, it will be neutral from both a fiscal deficit and liquidity management perspective, it said.

It also said bank re-capitalisation can indirectly support RBI objectives on the liquidity management, where the central bank has been buying back bonds to inject liquidity.

Drawing down from the excess capital will not impact ratings as well, as the ratings depend on the RBI’s forex reserves and not on internal reserves or the net-worth, it said.

The Jalan panel was constituted last December, after a protracted debate on the issue. While the money will help the fiscally-constrained government, sections of people within the RBI, including former governor Urjit Patel who quit amid differences with the government, were unhappy with the move.

Constitution of the panel was one of the first major decisions initiated by the career bureaucrat Shaktikanta Das, after he was appointed as governor last December.

Published on June 11, 2019



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