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Government begins groundwork for capital infusion in regional rural banks

BY ATMADIP RAY, ET BUREAU | JUN 18, 2019, 07.31 PM IST

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The NDA-2 government has set the ball rolling for providing capital support to regional rural banks, indicating its urgency to address the credit gaps at the grassroots.

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RRBs are facing fresh stress with additional liabilities because of the new pension scheme and higher gratuity, putting them into risk of eroding capital and ability to lend to the sector which needs attention the most amid farm distress.

Two people familiar with the development told ET that these banks have been asked to make finalisation of their accounts a priority and complete statutory audit so that their capital requirement can be assessed soon.

The Reserve Bank of India has also been approached for amortising their liabilities over a time period.

The National Bank for Agriculture & Rural Development (Nabard), the nodal agency for RRBs, has sought details from these banks of their pension and gratuity liabilities to access the total capital requirement over the next five years with a target of keeping CRAR above 9%.

“RRBs are requested to prepare and submit data, justifying the need for capital requirement based on actual and projected data,” Nabard said in a note to RRB chairpersons.

Nabard directed these banks to furnish data for the first three years, i.e., up to 2019, on actual basis and for the subsequent four years on projected basis. The deadline for submission of details is June 20.

“RRBs have also been told to make provision towards the additional liabilities. The government may inject a similar amount as capital support in these banks so that they remain healthy with minimum 9% CRAR,” a senior RRB official said.

The government has approved a new pension scheme for RRBs following the Supreme Court’s order to pay higher pension and bring it at par with the pension scheme in nationalised banks. The new scheme also covers persons already drawing pension.

Each of these banks has created a pension corpus by transferring fund from its profit and loss account. This, in turn, could put strain on the bank’s capital as it will not be able to plough back profit.

“The shortfall in their capital risk-adjusted ratio (CRAR) will be made good by the government,” people involved in the process of finalising the pension scheme told ET.

The government holds 50% share in RRBs while public sector banks hold 35% in each RRB, and the respective state governments hold the remaining 15%.

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