PSBs need ₹50,000-crore growth capital this fiscal: SBI report

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‘Consolidation will improve banks’ ability to lend for developmental needs’

Public sector banks (PSBs) may require around ₹50,000-crore growth capital in FY2020, according to State Bank of India’s special research report on budget for ANM (agriculture, NBFC and MSME) and ‘measured’ fiscal consolidation. Measures in respect of some lapses in NBFC sector are required to send a strong message, it added.

“Assuming a 12-13 per cent credit growth in FY20 with credit risk weighted assets of 70 per cent, PSBs may be requiring around ₹50,000 crore growth capital in FY20. However, the same also depends upon some major variables i.e. alternate long-term investor, recoveries from NCLT (National Company Law Tribunal), investment environment, out of NCLT settlements/auctions, treasury gains/loss, MTM (mark-to-market) provisioning of investments, additional or provision write-back," said Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI.

Under recapitalisation, over the last three financial years, PSBs have been recapitalised to the extent of ₹2.87 lakh crore, with infusion of ₹2.20 lakh crore by the Government and mobilisation of over ₹66,000 crore by PSBs themselves.

"At present, the share of top five banks in credit is around 39 per cent (China: 47 per cent). Thus, continued banking consolidation will improve the banks' ability to lend for developmental needs. There is also an immediate need to augment the number of NCLT benches so that the resolution system does not get choked. HR reforms for PSBs must also be a priority for the new Government," the report said.

NBFC sector calls for urgent attention

Emphasising that measures in respect of some lapses in NBFC sector are required to send a strong message, the report said this is all the more urgent since if the NBFC sector health does not improve, banks will have to face fresh round of NPA (non-performing asset) provisions going forward.

The report assessed that till March 2020, ₹4.75 lakh crore of bonds and papers of NBFC sector are set to mature. Further, most of the NBFC exposure is to the realty sector.

In this context, the report suggested that some sort of demand boost for the reality sector, like GST concessions to buyers and stamp duty rationalisation could very well give a flip to the realty sector and can also help solve part of the NBFC quagmire that they are currently in.

Agriculture

The Budget could focus upon tweaking with the agricultural sector. A big push to the term loan will boost the agricultural sector, the research report said.

Further, setting up of an Agri-marketing Reforms Council (AMRC) on the lines of the GST Çouncil and an exclusive focus on harnessing the rapidly shrinking water resources also deserve higher priority.

MSMEs

The MSME sector, too, needs urgent focus. Here, the SBI report underscored that there is a need for amalgamation of CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises) and CGFMU (Credit Guarantee Fund for Micro Units).

“This will remove the complexities such as multiple coverage / non-coverage of MSME loans and understanding among field functionaries about various time norms to be adhered to under each guarantee scheme will be eliminated. Setting up of an Equity Fund on the lines of the Sinha Committee suggestions may also be crystallised,” the report said.

Development goal

Overall, for the next Budget exercise, the report said the development goal might supersede the rigid objective of ’fiscal austerity’. Given the growth slowdown, the Government should ideally keep the deficit numbers constant for the next two years before reducing it further and try to propel growth.

“Sticking to a particular fiscal number is not that important in the current scenario. Instead, emphasis should be on making country-mandated fiscal rules that are credible and achievable. For an economy like India, higher public borrowings are a necessary evil given the large welfare schemes of the Government,” elaborated the report.

SBI estimates suggest that there is a 40 per cent probability of fiscal deficit for FY20 being at 3.5 per cent to 3.6 per cent . The market will actually be happy with such numbers given the weak growth impulses.

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