Finmin may review capital requirement of PSU banks after second quarter

By: PTI

Updated: Jul 05, 2020 4:10 PM

The finance ministry may assess the capital requirement of public sector banks after the September quarter as there would be greater clarity about a spike in bad loans by that time, sources said.

In 2019-20, the government proposed to make Rs 70,000 crore capital infusion into PSBs to boost credit for a strong impetus to the economy.

The finance ministry may assess the capital requirement of public sector banks after the September quarter as there would be greater clarity about a spike in bad loans by that time, sources said. There is widespread fear that non-performing assets (NPAs) of the banks will witness a surge due to the economic slowdown triggered by the COVID-19 outbreak and resultant lockdowns. This will need higher provisioning by banks as per the Reserve Bank of India (RBI) guidelines.

However, there could be a silver lining if RBI accepts request of loan restructuring for sectors hit badly by the coronavirus pandemic, sources said.

RELATED NEWS

ICICI Bank board meet on July 8 to consider fundraising

Yes Bank puts up for sale properties of Avantha Group, RHC Holdings for recovery of over Rs 1,000 crore

ICICI Bank board to consider proposal to raise capital on Wednesday

The pain of NPA will surface only after the extended moratorium ends in August, the sources said, adding it will be appropriate to assess capital requirement only after the second quarter numbers are finalised. Veteran banker and CII President Uday Kotak had said the public sector banks would need financial support from the government to drive the economy, while private sector banks need to raise capital from various sources to meet the future challenges.

"The COVID-19 outbreak and resulting lockdown has impacted adversely the real economy, businesses, individuals, government and financial sector. "While the government is facing the risk of higher fiscal deficit, the banking sector urgently needs the recapitalisation to the tune of Rs 3-4 lakh crore to meet the lending requirements," he had said last month.

Ratings agency Fitch has estimated a shortfall of USD 15 billion (about Rs 1.25 lakh crore) by Indian banks to achieve a 10 per cent Weighted Average Common equity tier-1 (CET 1) ratio under moderate stress and in the absence of which banks would show high risk aversion.

The banking sector's NPAs were expected to increase by 450 basis point through FY21 and FY21 under moderate stress. The government has infused over Rs 3.15 lakh crore into public sector banks (PSBs) in the 11 years through 2018-19.

In 2019-20, the government proposed to make Rs 70,000 crore capital infusion into PSBs to boost credit for a strong impetus to the economy. However, the government refrained from committing any capital in the Budget 2020-21 for the PSBs, hoping that the lenders will raise funds from the market depending on the requirement.

In the last financial year, Punjab National Bank was given Rs 16,091 crore, Union Bank of India Rs 11,768 crore, Canara Bank Rs 6,571 crore and Indian Bank Rs 2,534 crore. Merging entities like erstwhile Allahabad Bank was provided Rs 2,153 crore, United Bank of India1,666 crore and Andhra Bank Rs 200 crore.

Besides, Bank of Baroda got a capital infusion of Rs 7,000 crore, Indian Overseas Bank Rs 4,360 crore, UCO Bank Rs 2,142 crore, Punjab & Sind Bank Rs 787 crore and Central Bank of India Rs 3,353 crore.

In addition, LIC-controlled IDBI Bank too received additional capital of Rs 4,557 crore through the supplementary demands for grants. In all, the government has infused Rs 65,443 crore in PSBs in the last financial year as both regulatory and growth capital, as per Budget documents.