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More Fund Infusion Likely in PSU Banks

Besides pumping in the remaining ₹42kcr, govt may raise capital support to ₹1 lakh cr

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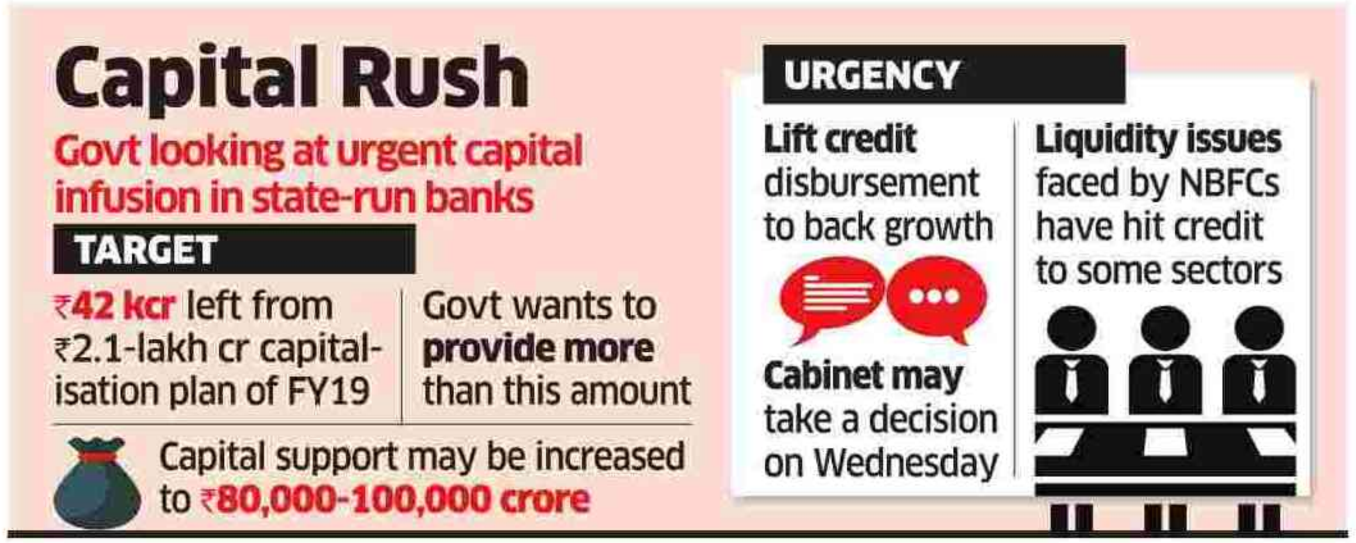

New Delhi: The government is planning an urgent infusion of more capital into public sector banks to push credit flow as it worries that liquidity constraints faced by non-banking finance companies may have hit growth.

The amount to be given to the banks could exceed the ₹42,000 crore left under the capitalisation plan currently being implemented, said a government official aware of the deliberations.

"The cabinet may take up the issue on Wednesday. We want to give growth capital to banks so that they can lend to meet and support the demands of the economy," the official said.

The government may increase the capital support to ₹80,000-100,000 crore so that most banks will benefit.

Year-on-year credit growth was 14.9% as of November 9, but the industry has complained that vital sectors such as real estate and micro, small and medium enterprises (MSMEs) have been denied funds. These sectors got the bulk of their credit from NBFCs, which saw their funding drying up after defaults by Infrastructure Leasing & Financial Services Ltd.

Govt, RBI at Work to Set Up Expert Panel

Formation of RBI's capital framework panel gained pace with the central bank and the Centre giving final touches to the list of likely members independent of each other, reports **Atmadip Ray**. ▶▶ 7

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Fiscal Pressures Abate

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"These are initial plans worked out considering an above 8% credit growth. It depends on the fiscal maths as well," the official added.

With crude prices falling sharply and the rupee rallying, fiscal pressures have abated a bit.

The capital calculation will also take into consideration the proposed merger of Bank of Baroda, Dena Bank and Vijaya Bank, which will create the country's third-biggest lender. "Besides, there will be some extra requirement taking into consideration the merger between the three lenders," the official said.

Separately, a finance ministry official said the government will certainly infuse the remaining ₹42,000 crore in state-owned banks by March and the next tranche would be released as early as next month.

Public sector banks will need fresh Tier I capital of ₹1.2 lakh crore in the five months ending March 2019, or ₹21,000 crore more than what was envisaged under the ₹2.11-lakh crore recapitalisation plan worked out last year, according to a recent report by rating company Crisil. Under the plan announced last year, ₹1.35 lakh crore was to be given through recapitalisation bonds and ₹18,000 crore from the Budget, while banks would raise ₹58,000 crore from the market.

Crisil had noted that given their weak performance and low valuations, public sector banks have little ability to tap the market, which means the government will have to provide most of the requirement.

HELPING HAND

The Reserve Bank of India's recent decision to extend the time to implement the last tranche of capital conservation buffer under Basel III capital regulations by one year could reduce the burden of state-owned banks by ₹35,000 crore this fiscal.

Recoveries under the Insolvency and Bankruptcy Code will reduce the capital requirement and banks will also benefit from the decline in bond yields. The rally in yields had raised the mark-to-market losses of banks against which they would have had to make provisions.