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Recap Plan to Revive PSU Banks

Why in news?

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Union government has announced a new recap plan for revival of Public sector Banks.

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What is the new plan about?

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- Under the recent recap plan, the Centre simply borrows from the banks to meet their capital requirements.
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- The Centre will raise money by issuing recapitalisation bonds to public sector banks.
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- This money will be funnelled back as equity capital into the same banks.
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- In effect, banks get to convert their liabilities into capital to absorb losses and fund their growth.
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What is the need for new plan?

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- The Centre's much touted differentiated recap approach is based on the premise that while stronger and non-PCA (Prompt Corrective Action) banks have been given capital to fund their growth.
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- PCA banks have been provided with funds to primarily meet their regulatory

capital requirement.
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- Due to sharp slippages reported by PSU Banks, some of these banks did need the extra cushion to tackle their financial burdens.
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- Sharp slippages, mostly out of banks' restructured accounts has also rightly drawn the RBI's attention.
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What are the concerns with Union government's move?

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- Earlier Union government has announced an infusion of a whopping Rs 88,000-odd crore of capital into ailing public sector banks, which has created furore.
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- After all, it was depositors' money being used to bail out these banks.
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- Depositors were irked by the infamous 'Clause 52' of the FRDI Bill that empowers the Resolution Corporation overseeing bank defaults to invoke bail-in and cancelling any/all of the bank's liabilities.
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- It is unclear why many banks under PCA have been given capital, way above that needed to just meet the norms.
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- Hence, while in the past, the Centre has been pumping taxpayers' money (ironically also depositors') into PSU banks.
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- This time around, with a bit of financial jugglery, depositors have in effect stepped in to bail out their banks.
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Source: Business Line

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