Recapitalising PSBs

Why in news?

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The Union Cabinet has recently approved a capital infusion plan for the Public Sector Banks.

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How does it work?

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- The Centre plans to infuse around Rs. 2 lakh crore capital over the next two years into PSBs.
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- This would be partly funded through **budgetary allocation** and fundraising from the markets and partly by the sale of **recapitalisation bonds**.
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- It is said that the nature of recapitalisation bonds would be decided in the coming months.
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- Notably, determining the nature of recapitalisation bonds is essential for dealing with the overall impact of capital infusion on the fiscal deficit.
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- As of now the budgetary support will come only from the fund earlier allocated under the Indradhanush scheme for bank recapitalisation.
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- Thus it is said that the capitalisation plan would not considerably impact the fiscal deficit.
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- Notably, there will be a **differential approach** to capitalisation based on the performance and potential of banks.
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- Banks will have to compete for loans through the revamped udyamimitra.in portal.

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- A series of **banking sector reforms** along with the capital infusion was also hinted at.

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What are the benefits?

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- India is witnessing a record low growth rate and a poor **private investment** record.

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- The mounting **NPAs** (non performing assets) has long been an issue of concern with deteriorating capital position of the PSBs.

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- The government's capitalisation package is thus essential for the cash-starved PSBs at this juncture.

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- It is expected to enable the banks to **lend** more freely and also help revive private investment.

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- It would also help the PSBs in meeting the **Basel III requirements**.

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- Besides, capital infusion will propel micro, small and medium enterprises through enhanced access to markets and better funding.

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- In all, the capitalisation drive can **boost the economy, spur investments and create jobs.**

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Quick Facts

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Recapitalisation bonds

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- Recapitalisation bonds were sold in 1990s to recapitalise banks.

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- The government issued these bonds to the nationalised banks which subscribed them in the normal course of their business.

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- The capital thus raised was used by the government to infuse fresh 'equity' into the cash starved banks.
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- The idea is to borrow from the banks themselves and boost the weaker banks’ capital, without an immediate demand for direct government budgetary support.
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- Globally, the practice is to not include bonds in the fiscal deficit calculation. But in India, it is included as part of the deficit.
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- The effect on the fiscal deficit will thus depend on the nature of the bonds and also how they are dealt with.
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Basel III

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- Basel III guidelines introduced in 2010, were in response to the financial crisis of 2008.
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- The guidelines aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.
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'Udyami Mitra' portal

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- This portal was launched by the Small Industries Development Bank of India (SIDBI) to improve accessibility of credit for the MSMEs.
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- It helps MSMEs for submission of loan applications and following up the processing.
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- It aims at bringing in transparency in processing of loans by the banks.
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- Under the new capitalisation plan banks will have to compete for loans through the revamped udyamimitra portal.
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Source: The Hindu, BusinessLine

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