Anxieties with Recapitalization

What is the issue?

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- Union governmenthas spent more money for public sector banks recapitalization.
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- Instead of solving the issues it has created more bad loans.
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What is the status of market capitalisation of banks?

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- In 2015 the share of PSU banks in loans which is where banks make the bulk of their money from is down from just 78.8% to 70.8%, but not more share of their deposits.
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- If PSU banks have not lost more of the share of bank deposits, it is because people feel their money is safe in PSU banks.
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- In the same year due to the increase in Private sector banks, the share of PSU banks in total bank market capitalisation fell from 42.9% to just 25.7%, Which means a notional loss of Rs 280,000 crore.
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- In FY 16, under the Indradhanush plan Rs 58,000 crore was infused into public sector banks.
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- Recently the PSU banks had lost a bit of this value and had a market capitalisation of Rs 439,413 crore.
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What are the concerns with these recapitalization moves?

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- The money, pumped in by union government to recapitalise the banks has now turned into NPAs.
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- It is to be noted that only loans given by PSU banks have turned into NPAs since private sector banks also have large NPAs.
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- This is because they lent more to industry than the private sector banks did.
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- It is also clear that the government cannot afford to spend Rs 300,000-350,000 crore every decade on PSU banks.
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What moves of the government eroded PSU banks?

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- The massive capital value erosion by PSU banks happened due to the investments for the service infrastructures of Jan Dhan accounts.
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- The same thing happened when housing subsidies were announced by the government, the government doesn't accounts this expenditures of the PSUs.
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What are the practical difficulties in privatization of PSUs?

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- Lending to agriculture or MSMEs is mandated by RBI, as a share of total lending, if all PSU banks are privatised, private banks will have to do this much of lending.
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- Private Bankswill not open Jan Dhan accounts like the PSU banks did, but if the government paid them to do so, and to service these loans, they would gladly do this.
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What measures can be taken?

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- If there is any service PSU banks did for the sake of government, the cost incurred need to be taken by the government.
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- Proper mechanisms and arrangements needs to be formulated for such rebate mechanisms.
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- Thus addressing PSU banks crisis is the collective responsibility of all government machineries.
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Source: Financial Express

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