Government's Plan on Re-capitalization

Why in news?

\n\n

Union government has sought Parliament's approval to infuse funds into starved public sector banks for recapitalization.

\n\n

What is union government's plan on re-capitalization?

\n\n

\n
- Union government has sought Parliament's approval to infuse an additional Rs. 41,000 crore into public sector banks that are starved of precious capital to remain afloat.
\n
- Along with another Rs. 42,000 crore that is already budgeted for infusion, this tranche will take the total planned funds infusion into banks this year to Rs. 83,000 crore.
\n
- The infusion will help banks boost lending and stimulate economic activity going into an election year.
\n

\n\n

How RBI's PCA influences this decision?

\n\n

\n
- Prompt Corrective Action (PCA) is primarily to take appropriate corrective action on weak and troubled banks.
\n
- The RBI has put in place some trigger points to assess, monitor and control banks.
\n
- The trigger points are on the basis of CRAR (a metric to measure balance sheet strength), NPA and ROA (return on assets).
\n

- Based on each trigger point, the banks have to follow a mandatory action plan.
\n
- RBI could take discretionary action plans too apart from these.
\n
- RBI has initiated prompt corrective action (PCA) in as many as 11 PSBs.
\n
- It prohibits them from undertaking fresh business activities such as opening branches, recruiting talent or lending to risky companies.
\n
- The recent fund infusion is aimed, among other things, to help a number of public sector banks to climb out of the Prompt Corrective Action (PCA) framework.
\n

\n\n

What is the significance of this plan?

\n\n

\n
- Union government assured that additional capital is not wasted on banks that have not shown any improvement but rather used to support the weak ones that are on the recovery path.
\n
- The government has said that PCA banks which have shown better performance in terms of reduction in NPAs and improvement in return of assets will be given priority.
\n
- The proof will come when the allocations to individual banks are announced.
\n
- There have been reports that four banks under the PCA, Allahabad Bank, Bank of India, Corporation Bank and Bank of Maharashtra will soon be out of the restrictive framework.
\n
- This is following a review by the Board for Financial Supervision of the RBI, which went over the financials of all the banks under the framework.
\n

\n\n

What lies ahead?

\n\n

\n
- The government is obviously keen to free up the banks from restrictions on

lending.
\n

- But it flies counter to the RBI’s basic objective in keeping these banks under the PCA framework, which is to nurse them back to good health.
\n
- In its eagerness to achieve its political objectives, the government should not end up pushing good money after bad by apportioning extra capital to these weak banks instead of supporting the ones that are on the recovery path.
\n
- In this regard government has to exercise prudence and caution as the banks are grappling with inadequate capital.
\n

\n\n

\n\n

Source: The Hindu

\n

SHANKAR IAS PARLIAMENT
Information is Empowering