Recapitalising PSBs

Why in news?

\n\n

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

\n\n

How does it work?

\n\n

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

\n

\n\n

What are the benefits?

\n\n

\n
- India is witnessing a record low growth rate and a poor **private investment** record.
\n
- The mounting **NPAs** (non performing assets) has long been an issue of concern with deteriorating capital position of the PSBs.
\n
- The government's capitalisation package is thus essential for the cash-starved PSBs at this juncture.
\n
- It is expected to enable the banks to **lend** more freely and also help revive private investment.
\n
- It would also help the PSBs in meeting the **Basel III requirements**.
\n
- Besides, capital infusion will propel micro, small and medium enterprises through enhanced access to markets and better funding.
\n
- In all, the capitalisation drive can **boost the economy, spur investments and create jobs.**
\n

\n\n

Quick Facts

\n\n

Recapitalisation bonds

\n\n

\n
- Recapitalisation bonds were sold in 1990s to recapitalise banks.
\n
- The government issued these bonds to the nationalised banks which subscribed them in the normal course of their business.
\n
- The capital thus raised was used by the government to infuse fresh 'equity' into the cash starved banks.
\n

- The idea is to borrow from the banks themselves and boost the weaker banks' capital, without an immediate demand for direct government budgetary support.
\n
- Globally, the practice is to not include bonds in the fiscal deficit calculation. But in India, it is included as part of the deficit.
\n
- The effect on the fiscal deficit will thus depend on the nature of the bonds and also how they are dealt with.
\n

\n\n

Basel III

\n\n

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

\n\n

'Udyami Mitra' portal

\n\n

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

\n\n

\n\n

\n\n

Source: The Hindu, BusinessLine

\n

