

FOUR PSU BANKS TO GET 14,500 CR VIA ZERO COUPON BONDS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The recap bonds would be issued at par for amount sought by the eligible banks and will have six varying maturities

MUMBAI : The central government will infuse 14,500 crore capital in Central Bank of India, Indian Overseas Bank, Bank of India, and UCO Bank through non-interest bearing bonds, after a similar infusion of 5,500 crore in Punjab and Sind Bank in December.

The recapitalization bonds, which would be issued "at par" for the amount sought by the eligible banks, will have six different maturities, the finance ministry said in a gazette notification.

The government's use of zero-coupon route comes despite concerns raised by the Reserve Bank of India (RBI) that such bonds are issued at a deep discount to the face value, and it is difficult to ascertain their net present value.

Except Bank of India, the other three capital-starved lenders are under RBI's prompt corrective action (PCA) framework, restricting their lending and expansion plans.

"With the government deciding to infuse substantial capital in all the three public banks which are under the PCA framework, we expect these banks to come out of PCA in FY2022. However, given that the capital infusion is through zero-coupon recapitalization bonds, the earning profile of these banks may not improve on account of this transaction as their capital position improves," said Anil Gupta, vice-president, financial sector ratings, ICRA.

The zero-coupon bonds will save interest costs for the government, which has paid interest of 22,086.54 crore on bank recapitalization bonds in the last two financial years.

During FY19, the government had paid 5,800.55 crore as interest on bank recapitalization bonds for pumping in capital to help them meet Basel-III norms.

Interest payments trebled to 16,285.99 crore the next year, as the PSBs have been holding these papers.

In bank recapitalization, the government issues bonds to a public sector bank that needs capital.

The bank subscribes to the paper against which the government receives the money. The money received goes towards the equity capital of the bank.

In all, the government has issued recapitalization bonds of about 2.5 trillion over the last three financial years.

Click here to read the [Mint ePaper](#) Mint is now on Telegram. Join [Mint channel](#) in your Telegram and stay updated with the latest [business news](#).

Log in to our website to save your bookmarks. It'll just take a moment.

Oops! Looks like you have exceeded the limit to bookmark the image. Remove some to

bookmark this image.

Your session has expired, please login again.

You are now subscribed to our newsletters. In case you can't find any email from our side, please check the spam folder.

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

CrackIAS.com