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CENTRE CLEARS RS. 48,239 CR. RECAPITALISATION PACKAGE FOR PSBS

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

The government has approved the disbursal of a recapitalisation package of Rs. 48,239 crore for 12 public sector banks, Financial Services Secretary Rajiv Kumar announced on Wednesday.

He said that this package had a fourfold objective: (i) bringing the better-performing banks currently in the Prompt Corrective Action (PCA) category out of it, (ii) helping those that have recently come out of PCA to stay out of it, (iii) equipping non-PCA banks to meet regulatory requirements, and (iv) helping the remaining PCA banks to meet their requirements as well. Towards this, a total of Rs. 15,982 crore is to be disbursed to Allahabad Bank and Corporation Bank, both of which fall within the first objective. Bank of India and Bank of Maharashtra, which recently exited the PCA category, are to receive a total of Rs. 4,843 crore. The bulk of this (Rs. 4,638 crore) is allocated for Bank of India.

Four of the non-PCA banks (Punjab National Bank, Union Bank, Andhra Bank and Syndicate Bank) will get a total of Rs. 14,879 crore. The largest share of this, of Rs. 5,908 crore, will go to PNB. The last category — of PCA public sector banks looking to meet their regulatory requirements — will get a total of Rs. 12,535 crore.

These banks are Central Bank, United Bank, UCO Bank, and Indian Overseas Bank. “It should be taken as a supplement to the earlier package of recapitalisation, which was much bigger,” D.K. Srivastava, chief policy advisor, EY India, said. “We need to also take this in the context of growth picking up. Usually, when growth starts to become better, then those NPAs which have an economic reason behind them automatically get out of their NPA status. So, given that growth is improving and that this is a supplementary amount, it may be considered a timely intervention.”

The Centre had infused Rs. 28,615 crore into 7 banks via recapitalisation bonds in December 2018.

It is a timely intervention since growth is improving and this is a supplementary amount

DK Srivastava

Chief policy advisor, EY India

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