

CENTRE TO RECAPITALISE WEAK PSBS AS PART OF 15,000 CR CAPITAL INFUSION

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

Centre has announced to provide capital support to weak public sector lenders like the Central Bank of India and Punjab & Sind Bank. Such banks will get a big chunk of the 15,000 crore earmarked for capital infusion in state-owned banks for the current fiscal.

The capital infusion would go mostly to banks which had got money through non-interest-bearing bonds in the previous year as the RBI had raised some concerns on the fair valuation of these instruments, sources said told PTI.

As per the RBI, the net present value of infusion made last year through zero-coupon bonds is much lower than face value as they were issued at discount, the sources added.

These special securities with tenure of 10-15 years are non-interest bearing and valued at par. Such bonds usually are non-interest bearing and issued at a deep discount to the face value. So, the effective Tier 1 capital levels for the banks could be lower than the regulatory requirement.

Previously, Punjab & Sind Bank got board approval to raise equity capital worth 4,600 crore by issuing preference shares to the government. The money will help the bank augment capital to the required level and save it from coming under the prompt corrective action (PCA) framework.

Similarly, sources told PTI, the decision for the quantum for other banks would be taken in March and subsequently funds would be infused.

In the Budget 2022-23, the government trimmed the capital infusion target to 15,000 crore from 20,000 crore estimated earlier for 2021-22.

The first capital infusion through non-interest-bearing bonds was in Punjab & Sind Bank in the third quarter of 2020-21. It was followed by 14,500 crore into four lenders -- Bank of India, Indian Overseas Bank, Central Bank of India and UCO Bank in March 2021.

Central Bank of India received 4,800 crore, UCO Bank 2,600 crore, Bank of India 3,000 crore and Indian Overseas Bank 4,100 crore.

Never miss a story! Stay connected and informed with Mint. [Download](#) our App Now!!

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.

This is a subscriber only feature [Subscribe Now](#) to get daily updates on WhatsApp

END

Downloaded from crackIAS.com

© **Zuccess App** by crackIAS.com

CrackIAS.com