

CABINET APPROVES RECAPITALIZATION OF REGIONAL RURAL BANKS TO IMPROVE THEIR CAPITAL TO RISK WEIGHTED ASSETS RATIO

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

Cabinet Committee on Economic Affairs (CCEA)

Cabinet approves recapitalization of Regional Rural Banks to improve their Capital to Risk Weighted Assets Ratio

Posted On: 25 MAR 2020 3:44PM by PIB Delhi

The Cabinet Committee on Economic Affairs, chaired by Prime Minister Shri Narendra Modi, has given its approval for continuation of the process of recapitalization of Regional Rural Banks (RRBs) by providing minimum regulatory capital to RRBs for another year beyond 2019-20, that is, up to 2020-21 for those RRBs which are unable to maintain minimum Capital to Risk weighted Assets Ratio (CRAR) of 9%, as per the regulatory norms prescribed by the Reserve Bank of India.

The CCEA also approved utilization of Rs.670 crore as central government share for the scheme of Recapitalization of RRBs (i.e. 50% of the total recapitalization support of Rs.1340 crore), subject to the condition that the release of Central Government's share will be contingent upon the release of the proportionate share by the sponsor banks.

Benefits

A financially stronger and robust Regional Rural Banks with improved CRAR will enable them to meet the credit requirement in the rural areas.

As per RBI guidelines, the RRBs have to provide 75% of their total credit under PSL (Priority Sector Lending). RRBs are primarily catering to the credit and banking requirements of agriculture sector and rural areas with focus on small and marginal farmers, micro & small enterprises, rural artisans and weaker sections of the society. In addition, RRBs also provide lending to micro/small enterprises and small entrepreneurs in rural areas. With the recapitalization support to augment CRAR, RRBs would be able to continue their lending to these categories of borrowers under their PSL target, and thus, continue to support rural livelihoods.

Background:

Consequent upon RBI's decision to introduce disclosure norms for Capital to Risk Weighted Assets Ratio (CRAR) of RRBs with effect from March 2008, a committee was set up under the Chairmanship of Dr. K.C. Chakrabarty.

Based on the Committee's recommendations, a Scheme for Recapitalization of RRBs was

approved by the Cabinet in its meeting held on 10th February, 2011 to provide recapitalization support of Rs. 2,200 crore to 40 RRBs with an additional amount of Rs. 700 crore as contingency fund to meet the requirement of the weak RRBs, particularly in the North Eastern and Eastern Region. Therefore, based on the CRAR position of RRBs, as on 31st March of every year, National Bank for Agriculture and Rural Development (NABARD) identifies those RRBs, which require recapitalisation assistance to maintain the mandatory CRAR of 9%.

Post 2011, the scheme for recapitalization of RRBs was extended upto 2019-20 in a phased manner with a financial support of Rs. 2,900 crore with 50% Government of India's share of Rs. 1,450 crore. Out of Rs. 1,450 crore approved as GoI's share for recapitalization, an amount of Rs. 1,395.64 crore has been released to RRBs, upto 2019-20 so far.

During this period, Government has also taken various initiatives for making the RRBs economically viable and sustainable institutions. With a view to enable RRBs to minimize their overhead expenses, optimize the use of technology, enhance the capital base and area of operation and increase their exposure, the Government has initiated structural consolidation of RRBs in three phase, thereby reducing the number of RRBs from 196 in 2005 to the present 45.

PK/ AK

(Release ID: 1608097) Visitor Counter : 1090

Read this release in: [Hindi](#) , [Marathi](#) , [Bengali](#) , [Tamil](#)

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com