

More banks may sign MoUs with govt.

The government is planning to ask more public sector banks to enter into an agreement with it if they want more capital, provided banks improve their performance.

This was communicated by finance ministry officials to the bankers in the two-day meeting that concluded on November 12.

Earlier, the government had entered into an agreement with 11 banks, and had asked them to submit a turnaround plan and had linked capital infusion with the pace of turnaround.

Conditional infusion

Some of the banks that had been asked by the government for a turnaround plan in that instance were IDBI Bank, Indian Overseas Bank, Bank of Maharashtra, UCO Bank and United Bank of India. "In the last six months some more public sector banks have reported losses. These banks also have to sign an agreement with the government for capital," said a chief executive of a public sector bank who attended the meeting.

"The government has said it will support its banks with capital," the person added.

In the earlier round of MoUs, banks were asked to achieve several parameters such as reduction in gross non-performing assets, increase in recovery, restriction of slippages, among others. In other words, capital infusion in these laggard banks were to be linked to their performance.

Recently, the government had announced a capital infusion of Rs. 2.11 lakh crore in public sector banks over two financial years, starting from the current fiscal. Of the amount, the government plans to issue recapitalisation bonds worth Rs. 1.35 lakh crore and the remaining would come from budgetary provisions and fund raising by banks from the market.

While finance ministry officials have not committed any time frame by which the first tranche of capital will be infused, bankers said they expected it by December.

"Else, it will be too late," said another banker. In the past two years, banks have seen a sharp rise in non-performing assets, adding to their provisions. While there are some signs that asset quality is stabilising, as indicated in the July-Sept. earnings, banks are still facing higher provisioning requirements for cases filed for bankruptcy.

The Reserve Bank of India has mandated 50% provision for cases admitted in the National Company Law Tribunal. Initially, the RBI had handed over a list of 12 companies for insolvency and bankruptcy proceedings. It added a second list comprising 28 companies, bad loans to which were to be resolved by December, failing which they too were to be referred for bankruptcy proceedings.

In the meeting, the ministry had also urged banks to revisit their loans strategy. It had said that all banks need not extend all types of loans. "They want mid-sized and small banks to focus on small firms and households," another bank's chief added.

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