

Bank recapitalisation plan a welcome move

The massive bank recapitalisation announced by the government is welcome. Purists may balk at the fact that it is financial engineering—but they must remember that we live in a time in which central banks have bent rules by even buying corporate bonds to repair economies. Also, recapitalisation bonds were used by the Indian government in the early 1990s as well.

Any bank recapitalisation deals with the stock rather than flow of bad debt. The challenge is to push ahead with financial sector reforms so that bank lending practices improve. The bank recapitalisation plan, thus, has the same pluses and minuses that the Ujwal Discom Assurance Yojana (Uday) has. It should be seen as a first step rather than the final one.

Large companies have already moved to the bond markets because banks have been unable to lend. The bank recapitalisation, then, should help smaller enterprises, assuming the main constraint was the supply of loans rather than the demand for them. If only the Narendra Modi government had moved on this front three years ago.

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