

Govt. may get equity from PSBs for recapitalisation bonds: CEA

Arvind Subramanian

The Centre could receive equity equivalent to value of the recapitalisation bonds placed with the public sector banks, according to Arvind Subramanian, Chief Economic Adviser (CEA).

“What is new, however, is that the government also committed... to issuing Rs. 1.35 lakh crore as ‘recapitalisation bonds’ over the current and next fiscal year, and using these bonds to recapitalise public sector banks,” Mr. Subramanian said while delivering a lecture at Khalsa College.

“Details of the mechanics of issuing these bonds will be elaborated in the period ahead... It is likely that the recap bonds will be placed with the banks for which the government will get an equivalent holding of equity in the banks,” he added.

This, he said, will strengthen the capital base of the public sector banks and allow them to strengthen and increase their lending.

Mr. Subramanian also said the current system of public sector banks lending to private companies had turned toxic and there was a view that private-to-private lending and private-to-public lending should instead be encouraged.

He also said the climate of caution, inertia and fear under which public sector bank managers operate must be addressed.

Bank privatisation

“Public discussion of private sector ownership has emphasised the benefits that will derive from less political interference and politically-directed lending that public ownership has led to in the past,” the CEA said.

He also sought to answer what some of the “uber-Brahmastra” reforms in banking sector could be to accompany the recapitalisation exercise.

One option, he said, was for selective and incentive-based recapitalisation where “one possibility would be to recapitalise the unviable banks only to the extent necessary to finance their current balance sheet size while explicitly not providing for their growth”.

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