Pursuit of growth: PSB recapitalisation

The Centre's decision to infuse **2.11 lakh crore of fresh capital into public sector banks** over the next two years, through a blend of financial mechanisms, should help revive the growth momentum. Saddled with bad loans as well as stressed assets of close to 10 lakh crore, India's banking sector has been naturally wary in recent quarters of extending fresh loans, as reflected in bank credit growth slipping to a 60-year low of just 5% this April. Since its first year in office, the government has been seized of what Chief Economic Adviser Arvind Subramanian calls the **twin balance-sheet problem**. If over-leveraged companies are unable to invest or borrow afresh, and banks are unwilling or/and unable to finance fresh investments, a private investment-led recovery is unlikely. However, it was only late last year that a new bankruptcy law was introduced, and over the course of this year the Reserve Bank of India has asked banks to invoke insolvency proceedings in the case of 50-odd accounts if settlements remain elusive. Banks, under pressure from the RBI to acknowledge the stress on their books, face the prospect of taking heavy haircuts to write off some of these loans at whatever residual value remains in the businesses. When combined with their need to scale up their capital base to comply with Basel III norms, public sector banks have naturally been in damage control mode rather than chasing growth like their private sector peers.

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

The three-part package for lenders includes 18,000 crore from the Budget, 58,000 crore that banks can raise from the market (possibly by tapping the significant room available to dilute the government's equity that remains well over 51%) and the issue of recapitalisation bonds worth 1.35 lakh crore. Though there are still many unknowns about the nature of these bond issues (whether they will affect fiscal deficit calculations or be off-balance-sheet sovereign liabilities, for instance), the overall plan gives banks a better sense about their immediate future. The bonds will front-load capital infusion while staggering the fiscal impact, which Mr. Subramanian expects to be limited to the annual interest costs on these bonds of about 9,000 crore. The Centre is betting this will strengthen the banks' ability to extend credit at a faster clip. RBI Governor Urjit Patel has said this is the first time in a decade that there is a real chance of meeting the banking sector's challenges. But it is still a long haul. While more details on this package are awaited, including how banks will be picked for funding and the possible interplay with proposed mergers of banks, equally critical will be the reforms that Finance Minister Arun Jaitley has promised as a necessary adjunct. Banks are where they are, not just because of capital constraints but also because of their inefficiencies and past lending overdrives.

Rajasthan's ordinance shields the corrupt, threatens the media and whistle-blowers

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