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Government to infuse Rs 88,139 crore into 20 PSBs before March

The capital infusion plan for 2017-18 includes Rs 80,000 crore through recap bonds and the remaining Rs 8,139 crore through budgetary allocation.

Jan 24, 2018 Moneycontrol News

The government will infuse Rs 88,139 crore into 20 public sector banks through recapitalisation bonds and budgetary support in this financial year, a move aimed at strengthening these banks' lending capacity and thereby pulling the country out of a three-year low growth slump.

Finance minister Arun Jaitley on Wednesday unveiled details of the recapitalisation package for public sector banks (PSBs) that was announced in October. The capital infusion plan for 2017-18 includes Rs 80,000 crore through recap bonds and the remaining Rs 8,139 crore through budgetary allocation.

"This plan addresses regulatory capital requirement of all PSBs and provides a significant amount towards growth capital for increasing lending to the economy," the finance ministry said in a statement.

A total of Rs 35,828 crore will be infused into nine banks that haven't triggered prompt corrective action (PCA), including State Bank of India (SBI), Punjab National Bank and Bank of Baroda, among others, while Rs 52,311 crore will be pumped into 11 banks that have triggered PCA, including IDBI, Central Bank of India, and UCO Bank.

"State Bank of India will get Rs 8,800 crore, Rs 3,571 crore for Oriental Bank of Commerce, Rs 3,045 billion for Dena Bank, Rs 5,158 crore for Central Bank of India, Rs 4,694 billion for Indian Overseas Bank, Rs 9,232 billion for Bank of India," banking secretary Rajeev Kumar said addressing the media.

The fresh capital will bring with it a stringent reforms package based on six themes -- customer responsiveness, responsible banking, credit off take, PSBs as Udyami Mitra, deepening financial inclusion and digitalisation and developing personnel for brand PSB -- as well as incorporating 30 action points.

Capital Allocation *All amounts in crores

Non PCA Banks	
Banks	**FY'18**
State Bank of India	8,800
Punjab National Bank	5,473
Bank of Baroda	5,375
Canara Bank	4,865
Union Bank of India	4,524
Syndicate Bank	2,839
Andhra Bank	1,890
Vijaya Bank	1,277
Punjab & Sind Bank	785
Total	**35,828**

PCA Banks	
Banks	**FY'18**
IDBI Bank	10,610
Bank of India	9,232
UCO Bank	6,507
Central Bank of India	5,158
Indian Overseas Bank	4,694
Oriental Bank of Commerce	3,571
Dena Bank	3,045
Bank of Maharashtra	3,173
United Bank of India	2,634
Corporation Bank	2,187
Allahabad Bank	1,500
Total	**52,311**

"Capital will be given to banks on the basis of their performance and credentials," Kumar said.

Whole-time directors of PSBs would be assigned theme-wise reforms for implementation and their performance in this regard would be evaluated by the respective bank's board. Kumar also said that the regulatory capital of all PSBs will be maintained and the government will not let them fail.

A survey by an independent agency will be conducted to measure public perception about improvements in access and service quality.

"Taken together, the recap & reform agenda is sharply focused on strengthening PSBs, increasing lending to MSMEs and making it easier for MSMEs and retail customers to transact as well as significantly increasing access to banking services. It includes a commitment to banking services within 5 kms of every village, refund within 10 days of any unauthorised debit in electronic transactions, a mobile App for locating banking outlets and a mobile ATM in every underserved district," the finance ministry said.

Jaitley said the government has also decided to capitalise public sector banks (PSBs) in a front-loaded manner, with a view to support credit growth and job creation.

In October, the government had announced that it would infuse Rs 2.11 lakh crore of capital in PSBs over the next two years through recap bonds, as well as budgetary allocation, as part of a broad plan to create thousands of new jobs, raise income, boost investment and quicken growth in the broader economy.

Banks, especially state-owned ones, have been saddled with non-performing assets (NPAs), mainly across six major sectors-- steel, power, roads, highways, and telecom--and are currently in the process of revival given the pile-up of bad loans that threatens to negatively affect their growth. NPAs held by Indian banks stand at around Rs 10 lakh crores.

Government decision on IDBI Bank privatisation stands: Arun Jaitley

NEW DELHI: By PTI | Jan 24, 2018, ECONOMIC TIMES

Finance Minister Arun Jaitley today said the government decision on privatisation of IDBI Bank stands and it will be implemented at the right time.

"One of the objectives in supporting the non-PCA (Prompt Corrective Action) banks has been that these are the banks where robust lending has to take place so that they are able to support growth, lending and the economy itself," he said while unveiling banking sector reforms.

For the PCA banks, he said, the principle objective appears to be that they maintain their regulatory capital and it has been the criterion followed for IDBI.

"The original decision (on privatisation of IDBI Bank) stands. It's has not been reconsidered but there is always a time for implementing a decision," he said.

Jaitley had said in 2016 that India is not ready for privatisation of PSU banks and their present characteristics will continue except for IDBI Bank.

"We are trying to consolidate some of the banks, which may otherwise find it difficult in a competitive environment ... In one case we are thinking of reducing the government stake to 49 per cent, IDBI Bank," he had said.

Asked why privatisation in financial space is not taking place, he had said, "In order to reach a particular level of reform, you have to evolve into that stage of public opinion ... In funding large part of social sector in India, public sector banks, despite competition had a far larger contribution."

Outlining the roadmap for merger of state-owned banks, Financial Services Secretary Rajiv Kumar said: "It's the question of faith in each bank. The faith which the government has committed to retain. It will take its own natural course."

Every bank will come out with differentiated banking strategy as per which it has to decide about its structure and future course of action, Kumar said.

"This is an exercise to do the reform and also reorient the entire process, responsibility and accountability part," he said.

Kumar added that the reforms will decide as to what kind of differentiated banking strategy the lenders would undertake with the given amount of capital and the core competencies they have, and then find the solution.

On the issue of higher capital being provided to weak banks, Kumar said that IDBI Bank's total requirement is much higher.

Capital infusion: Government to step up vigil on PSBs' performance

As the government prepares for an unprecedented level of capital infusion into public-sector banks (PSBs) through bonds, it is considering stricter official monitoring of the performance goals for each of the banks that will receive the funds.

By: Banikinkar Pattanayak | New Delhi | Published: January 24, 2018

As the government prepares for an unprecedented level of capital infusion into public-sector banks (PSBs) through bonds. (Image: Reuters)

As the government prepares for an unprecedented level of capital infusion into public-sector banks (PSBs) through bonds, it is considering stricter official monitoring of the performance goals for each of the banks that will receive the funds. Major deviations from the performance commitments by a PSB could invite penal action, including halting of further infusion.

"While PSBs were asked to offer commitments on performance against capital infusion even earlier, past experiences suggest not all promises were kept by them.

So this time around, the huge capital infusion will be accompanied by much greater scrutiny of the performance parametres of each bank," a senior finance ministry official told FE.

"Afterall, the infusion is done from tax-payers' money. It's no free lunch," he said. Even finance minister Arun Jaitley, at an event of Uco Bank earlier this month, cautioned PSBs that their performance would be under test in the coming years.

An effective mechanism to not just manage the current non-performing assets well but to prevent piling up of bad debts in future would be a crucial part of these commitments, said the official. "While the banks have to lend more to support growth, their risk-assessment of loans and other monitoring should be very good," he said.

In case of any deviation from the promised goals, a PSB concerned will have to explain its position; unsatisfactory explanations could invite penal measures. FE had earlier reported that apart from NPA management, other conditions included good quarterly performance goals, austerity measures, sale of non-core assets and closing of loss-making branches. Austerity plans are mostly about tightening staff benefits, which include industry-standard wage hike and other perks and benefits such as leave travel concessions.

However, if a bank marks a turnaround quickly, such benefits may be restored early as well. A tripartite MoU between the government, the relevant PSB and its staff has to be signed for the bank to receive capital. As part of the Rs 2.11 lakh crore recapitalisation plan, approved by the Cabinet in October 2017, Rs 1,35,000 crore will be mobilised through the issuance of recapitalisation bonds and around Rs 58,000 crore by the dilution of government equity in various PSBs. The government will provide a budgetary support of Rs 18,139 crore under the existing Indradhanush plan (excluding the close to Rs 1,900 crore already provided until then).

The government intends to issue recapitalisation bonds worth Rs 80,000 crore in the current fiscal itself. It recently approved a proposal to infuse Rs 7,577 crore into six weak PSBs as part of the Indradhanush plan.

Around a dozen PSBs got into memorandums of understandings containing tough conditions with the Centre earlier this fiscal to receive capital. So they don’t need to do so again, as their existing agreements will continue.

But others will have to sign similar agreements with the government if they seek funds. Although Rs 25,000 crore was allocated to around a dozen PSBs in 2016-17 under the Indradhanush scheme, the government hadn’t imposed tough conditions for such an infusion.

The lenders that already signed the agreements earlier this fiscal include Allahabad Bank, Andhra Bank, Bank of India, Bank of Maharashtra, Central Bank of India, Dena Bank, IDBI Bank, Indian Overseas Bank, UCO Bank, United Bank of India and Union Bank of India.

Chief economic advisor Arvind Subramanian has already favoured selective and incentive-based capital infusion and suggested “recapitalising the unviable banks only to the extent necessary to finance their current balance sheet size while explicitly not providing for their growth".

Massive capital infusion into PSBs was necessitated as their gross NPAs surged from 5.4% of gross advances in March 2015 to 13.7% by June 2017. This led to a jump in their provisioning requirements to Rs 3,79,080 crore between FY15 and Q1FY18, much higher than the Rs 1,96,937 crore made during the preceding ten years.

Budget 2018: Recapitalisation Done, Time To Signal Banking Reforms

Bloomberg | Quint

Wednesday, 24 Jan,

At the turn of the century, then Indian Finance Minister Yashwant Sinha signaled a move towards banking sector reforms.

While presenting the Budget of 2000-01, Sinha said the government had decided to accept recommendations of the Narasimham Committee on Banking Sector Reforms. Crucial among these was a decision to reduce the minimum government shareholding in nationalised banks to 33 percent. That was a time when banks were stressed, needed capital and the government did not have adequate fiscal room to support them.

That intent to reform state-owned banking, however, did not translate into action. And so, eighteen years later, Finance Minister Arun Jaitley, may once again find himself spelling out a reform roadmap for these banks.

Having announced a Rs 2.11 lakh crore recapitalisation package for public sector banks this year, the government must now signal further reforms to improve the functioning of these banks, said Bimal Jalan, former governor of the Reserve Bank of India in a conversation with BloombergQuint. "We have to take measures to ensure the strength of these banks," Jalan said while adding the most important thing to do is to give greater operational independence to bank managements.

What one needs to do is give management powers to the banks. For instance, if you have a bank in an urban area, their policy may be different from a bank which has branches in rural areas....Someone has to keep watch and that should be the bank and the board. The government's job should be to keep them accountable and make sure they deliver the kind of services the country needs. Bimal Jalan, Former Governor, Reserve Bank of India

A government-driven push towards infrastructure lending in the 2009-2012 period is widely blamed for the current mess in the Indian banking sector. Large-ticket project loans given by both private and public sector banks during that period have turned bad due to slow project approvals and weaker than expected growth in the economy.

The result has been a surge in bad loans, which now stand at Rs 8.4 lakh crore or over 10 percent of all banking system loans. Bad loan ratios across public sector banks are much higher, forcing the Reserve Bank of India to place 11 of the 21 listed government lenders under the 'Prompt Corrective Action' framework. Under the framework, strictures, including on lending, are placed on banks which have high bad loans, weak capital adequacy and low return on assets.

Is eventual privatisation the answer? Jalan doesn't believe so. "If 60 percent of your workforce is in rural areas, then how can you depend on private banks to provide them services," Jalan asks. "Public sector banks still have a role to play."

Granular Reform Over Bold Pronouncements

Arundhati Bhattacharya, former chairman of State Bank of India, also believes that the crucial reforms that need to be undertaken are in the areas of governance and policies around human resource management at public sector banks. The government, while announcing the recapitalisation package had said that the capital infusion would come together with reform of the banking sector to ensure appropriate use of the funds.

If the government can signal what reforms it has in mind, that would help, Bhattacharya told BloombergQuint. "Specifically, if these are in the areas of HR and further empowerment of the bank boards, that would be seen very positively by the market," said Bhattacharya.

The government in April 2016 had set up the Banks Board Bureau to help identify top management for public sector banks. The BBB was also intended to guide strategy at these banks and help them with capital raising options. It has so far not achieved much success. Banks, like SBI, have also tried to push performance-linked incentive plans for its staff. This, too, has failed to take off.

Some of the largest areas (of reform) would be in the area of board empowerment and HR. Those things, if we can start working on, the rest can follow suit. But we definitely need a lot of work in the area of HR. This ranges from recruitment and training to processes and ensuring specialisation, which is something that public sector banks have lacked. Public sector banks have been generalists but in today's day and age you need specialisation. Arundhati Bhattacharya, Former Chairman, State Bank of India

When asked whether consolidation needs to be part of the reform roadmap, Bhattacharya said that banks would prefer to clean up their balance sheets before they focus on mergers.

Under Bhattacharya, SBI had finished merging with its associate banks. The success of that merger has prompted the government to push for more consolidation among public sector banks. The process of submitting consolidation plans, however, was left to the banks themselves. So far, no formal consolidation proposals have been made public.

Arun Jaitley charts out PSB recap plans, special monitoring of loans above Rs 250 cr

Aiming at maintaining healthy books of public sector banks, Finance Minister Arun Jaitley on Wednesday charted out the government's recapitalisation plans, underlining that all loans above Rs 250 crore will undergo special monitoring.

The capital infusion plan for 2017-18 includes Rs 80,000 crore through recap bonds and Rs 8,139 crore as budgetary support.

"We have announced Rs 2.11 lakh crore recapitalisation of PSBs in October 2017. I have already moved a supplementary grant in Parliament on this. The entire objective of this exercise has been that it is government's prime responsibility to keep PSBs in good health," Jaitley told reporters at a press meet.

"We inherited a very major problem. The problem is of the past. Our objective was to find solution and create an institution so that the mistakes are not repeated," he said.

The government has decided to give Rs 8,800 crore to State Bank of India, Rs 5,375 crore to Bank fo Baroda, Rs 4,865 crore to Canara Bank and Rs 4,524 crore to Union Bank among various other PSBs.

Jaitley said while planning recapitalisation the government had two objectives - which bank would get how much money and various steps to be taken to ensure that the PSBs follow higher standards.

There are 21 PSBs in the country that comprise 70 per cent of the banking industry, said Rajiv Kumar, Banking Secretary.

"As discussed earlier this recapitalisation will be front loaded depending on the performance and merit of the PSB," said Kumar.

Allaying fears, he said: "Depositors' money in PSB is safe."

He also added PSBs should give loans responsibly so that there are no non-performing assets.

AIBEA THIS DAY – 25 JANUARY	
1968	**Central Committee of AIBEA meets at Bangalore – developments regarding 36 AD and other anti-worker measures discussed.**
1954	**Com. R Vijayakumar, Joint Secretary, AIBEA (Date of Birth)**
2008	**10 Lakh Bank men (UFBU) All India Strike against Merger ,out sourcing privatization etc.**

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