Finance ministry gears up for second round of PSB recapitalisation

FinMin seeks status report on reform plan by May 11

The finance ministry has begun the process of ascertaining the amount of capital to be infused into public sector banks (PSBs) this financial year as a part of the second round of recapitalisation.

The department of financial services has written to public sector banks seeking an update on the implementation of the reforms agenda set out by the Centre, which will become an important parameter for allocating funds to banks.

"We have asked public sector banks to update us about the implementation of the 30-point reforms agenda by May 11," said a senior finance ministry official.

While announcing the broad contours of the Rs 2.11 trillion recapitalisation plan for public sector banks, the Centre had chalked out a comprehensive time-bound reforms agenda, EASE (Enhanced Access and Service Excellence). State-run banks were asked to seek approval from their respective boards for implementing the EASE plan.

Based on the government's directive, the Indian Banks Association (IBA) recently floated a 'request for proposal' to appoint a consultant by June for measuring EASE.

A pre-bid meeting is scheduled on Monday.

The consultant will have to set up and validate methodology for measuring the reforms plan and data collection, and do an analysis of the outcomes. The government will bring out a report card on compliance of these measures every year.

In October last year, Finance Minister Arun Jaitley had unveiled a plan to infuse Rs 2.11 trillion in public sector banks over two years, to help them deal with the non-performing asset (NPA) mess. This included Rs 1.35 trillion through recapitalisation bonds, Rs 181.4 billion through budgetary support and the rest from the market. However, in January, the Centre said capital infusion into banks will be directly linked to their performance and implementation of the EASE plan.

The EASE programme covered six areas of reforms for banks — customer responsiveness, responsible banking, credit off-take, focus on medium and small enterprises, deepening of financial inclusion and better governance. Some of the terms required public sector banks to create a stressed asset management vertical, tie up with agencies for specialised monitoring of loans above Rs 2.5 billion, conduct strict surveillance of big loan defaulters, and appoint a whole-time director for monitoring reforms every quarter.

"The implementation of the reforms agenda under EASE will be a key parameter in determining the capital that each bank will get in the second tranche of recapitalisation this year. We will also know the financial results of public sector banks by the third week of May. That will also be factored in," said the finance ministry official quoted above.

Punjab National Bank (PNB) could get a higher allocation in the second round of recapitalisation due to huge losses, another finance ministry official said. Recently, PNB paid all dues, worth $2.07 billion, to banks for fraudulent letters of undertaking issued for group of companies belonging to Nirav Modi and Mehul Choksi, the Delhi-based bank's non-executive chairman Sunil Mehta told a newspaper in an interview recently. This will be treated as a loss in PNB's accounts as it is yet to recover money from the diamond firms, run by Modi and Choksi.

Under the first tranche of recapitalisation, over Rs 1 trillion has been infused into banks, last financial year, which included Rs 800 billion as bonds, Rs 81.4 billion as budgetary support and over Rs 100 billion through market-raising.

Last year, a major chunk of the capital infused by the Centre went to weaker banks to meet their capital adequacy requirements. Eleven banks facing prompt corrective action by the Reserve Bank of India received Rs 523 billion in 2016-17.

(Business Standard)