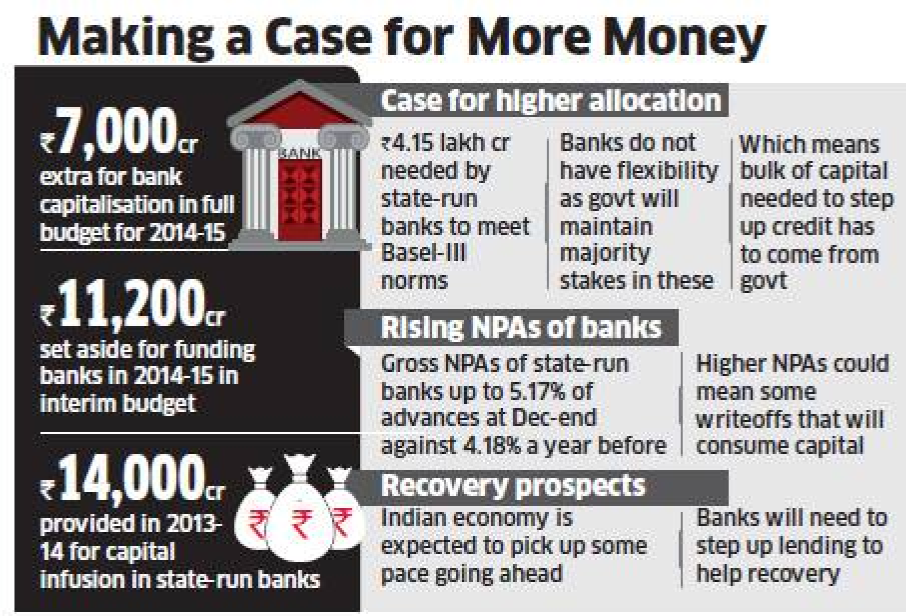
Finance Ministry to seek Rs 7,000 crore more for bank capitalisation

The finance ministry will make a pitch for infusing another Rs 7,000 crore of capital in state-run banks when the next government readies its budget for this fiscal year, an official with knowledge of the plan said.

In the interim budget presented in February, the government had announcedRs 11,200 crore for bank capitalisation in the fiscal year that started on April 1, less than the Rs 14,000 crore provided in 2013-14. The full budget for the year is expected to be presented in late June or early July.

"The initial demand made was for around Rs 22,000 crore (for all financial institutions), which was pared down by the Planning Commission," said the official, who is from the finance ministry. According to the official, the ministry will seek the extra amount because of the huge requirement of capital under Basel-III rules.

According to the Reserve Bank of India, state-run banks will need aboutRs 4.15 lakh crore - Rs 1.40-1.50 lakh crore of equity and Rs 2.65-2.75 lakh crore in nonequity capital - to meet higher capital requirements under Basel III. The RBI has already postponed the local deadline to fully implement the international regulations by a year to March 31, 2019. Ratings firm Fitch terms the central bank decision as a tacit recognition of the difficulty that state-owned banks would have faced in meeting full capital requirements under the previous timelines.



The demand from the finance ministry also highlights the fact that the banks need more government support because of a spike in bad loans - the rise in bad loans could lead to higher writeoffs and provisions. Banks would need fresh capital to both repair their balance sheet and step up lending. Bank capitilsation is managed by the Planning Commission through the funds provided for Plan development.

The government is looking at other avenues as well to raise capital for staterun lenders. Earlier this year, finance minister P Chidambaram had said that though the government would continue to provide capital support to banks, they need to rely upon a part of retained earnings as well.

"We examined and discussed ways. I will take up the issue when I meet the RBI's board," he had said, adding that the various suggestions for fundraising include rights issue by public sector banks, allowing pension and insurance funds to invest in banks through perpetual bonds under tier I and allowing banks to issue shares to employees.

Meanwhile, another finance ministry official said the decision on options such as merger of state-run banks and diluting government stake to 51% will be left to the next government.

"We are already working on a non-operating financial holding company structure. It can also throw up some options," he said, as this structure allows them to raise capital through various instruments. The relaxation provided by the RBI (by extending the deadline on Basel III) will also benefit banks, he added.

Industry-wide concerns have been expressed about the potential stresses on the asset quality and consequential impact on the performance and profitability of the banks, the RBI had said in its notification deferring the implementation of the Basel-III rules. "This may necessitate some lead time for banks to raise capital within the internationally agreed timeline for full implementation of the Basel-III capital regulations."

(Economic Times)