Banks under PCA sitting on cash pile

Posted at: 26/12/2018

Banks under PCA sitting on cash pile-Though banking system faces liquidity crunch, banks under lending restrictions see deposits grow

- Commercial banks, under the prompt corrective action (PCA) framework of the Reserve Bank of India (RBI), are sitting on a pile of cash as they don't have too many options to lend, even as the banking system is scrambling for liquidity.
- The 11 public sector banks under the PCA, enjoying 25% market share among commercial banks, are facing restrictions on lending while their deposit mobilisation has been healthy.

Liquidity deficit

- The average liquidity deficit in the banking system has been about Rs.1 lakh crore since October with the shadow banks impacted the most as they are finding it difficult to raise funds following the IL&FS crisis.
- This, in turn, is affecting the loan market.
- As a result, the bank's statutory liquidity ratio (SLR) was about 27-28%, much higher than the RBI mandated 19.5%.
- SLR is the minimum amount of liabilities that a bank must invest in government securities.
- For banks under PCA, the ratio is much higher.

Lazy Banking

- Investments in government bonds is the most risk-free avenue to park funds which, in banking parlance, is known as 'lazy banking.'
- While 'lazy banking' refers to the risk averse nature of banks, here, the situation is slightly different as their hands are tied.

No curbs on deposits

- According to the latest RBI data, year-on-year deposit growth is 9.7% compared with 2.7% a year ago.

- The aim of government to infuse additional capital of Rs.41000 crore is to provide capital to the banks under PCA, which will help them come out of restrictions imposed.

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