Capital idea?

Posted at: 24/12/2018

Capital idea?-The banks recapitalisation plan is per senot bad but funds must be distributed prudently

- With just months to go for the general election, the government looks all set to open the credit taps of the economy.
- The Centre has sought Parliament's approval to infuse an additional Rs.41,000 crore into public sector banks that are starved of precious capital to remain afloat.
- More important, the infusion will help banks boost lending and stimulate economic activity going into an election year.
- In fact, the latest fund infusion is aimed, among other things, to help a number of public sector banks to climb out of the Reserve Bank of India's Prompt Corrective Action (PCA) framework.
- As many as 11 public sector banks have been stopped from lending freely by the RBI under the PCA framework due to their poor financial health.
- It is important that the additional capital is not wasted on banks that have not shown any improvement but rather used to support the weak ones that are on the recovery path.
- The government has said that PCA banks which have shown better performance in terms of reduction in NPAs and improvement in return of assets will be given priority.
- The government is obviously keen to free up the banks from restrictions on lending.
- But it flies counter to the RBI's basic objective in keeping these banks under the PCA framework, which is to nurse them back to good health.
- In its eagerness to achieve its political objectives, the government should not end up pushing good money after bad by apportioning extra capital to these weak banks instead of supporting the ones that are on the recovery path.

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