PRESS NOTE

The Public Sector Banks (PSBs) play an important role in the economy of India. Of late, because of variety of legacy issues including the delay caused in various approvals as well as land acquisition etc., and also because of low global and domestic demand, many large projects are strained. Public Sector Banks which have got predominant share of infrastructure financing have been affected by this phenomenon. It has resulted in lower profitability of Public Sector Banks, mainly due to provisioning for the restructured projects as well as for gross NPAs.

2. As of now, the PSBs are adequately capitalized and meeting all the Basel III and RBI norms. However, the Government of India wants to adequately capitalize all the banks to keep a safe buffer over and above the minimum norms of Basel III. We have, therefore, estimated how much capital will be required this year and in the next three years till FY 2019. If we exclude the internal profit generation which is going to be available to PSBs (based on the estimate of average profit of the last three years), the capital requirement of extra capital for the next four years up to FY 2019 is likely to be about Rs.1,80,000 crore. This estimate is based on credit growth rate of 12% for the current year and 12 to 15% for the next three years depending on the size of the bank and their growth ability. We are also presuming that the emphasis on Public Sector Bank's financing will reduce over the years by development of vibrant corporate debt market and by greater participation of Private Sector Banks.

3. Out of the total requirement, the Government of India proposes to make available Rs.70,000 crores out of budgetary allocations for four years as per the figures given below:

(i)	Financial Year 2015 -16	-	Rs. 25,000 crore
(ii)	Financial Year 2016-17	-	Rs. 25,000 crore
(iii)	Financial Year 2017-18	-	Rs. 10,000 crore
(iv)	Financial Year 2018-19	-	Rs. 10,000 crore
	Total		**Rs. 70,000 crore**

4. We estimate that PSB's market valuations will improve significantly due to (i) far-reaching governance reforms; (ii) tight NPA management and risk controls; (iii) significant operating improvements; and (iv) capital allocation from the government. Improved valuations coupled with value unlocking from non-core assets as well as improvements in capital productivity, will enable PSBs to raise the remaining Rs. 110,000 crore from the market. However, the government is committed to making extra budgetary provisions in FY 18 and FY 19, to ensure that PSBs remain adequately capitalized to support economic growth.

5. In the Supplementary Demand presented today, an amount of Rs.12,000 crore has been provided, in addition to Rs.7940 crores already provided in the budget of FY 2015-16. The remaining Rs.5,000 crore would be provided in the second Supplementary later this year. The Rs.25,000 crore capital this year will be allocated through three tranches to meet three different objectives:

Tranche 1:

About 40% of this amount will be given to those banks which require support, and every single PSB will be brought to the level of at least 7.5% by Financial Year 2016.

Tranche 2:

40% capital will be allocated to the top six big banks viz. SBI, BOB, BOI, PNB, Canara Bank, and IDBI Bank in order to strengthen them to play a vital role in the economy.

Tranche 3

The remaining portion of 20% will be allocated to the banks based on their performance during the three quarters in the current year judged on the basis of certain performance. This will incentivize them to improve their performance in the current year.