

Updated: Feb 02, 2021 3:02 AM

Union Budget 2021: Recap plan, DFI to ease banks' capital positions

Union Budget 2021 India: DFI is meant to enable PSBs to reduce exposure to infra projects and enhance credit to other industries



Union Budget 2021: Analysts said the amount allocated for recapitalisation was on expected lines.

Indian Union Budget 2021-22: The announcement of a Rs 20,000-crore recapitalisation round and the establishment of a new development finance institution (DFI) could together help ease the capital constraints faced by public sector banks (PSBs), industry executives said. However, concerns remain about the adequacy of the outlay for recapitalisation, especially in the event of a fresh asset quality review (AQR) exercise.

Finance minister Nirmala Sitharaman said the intent behind setting up a new DFI is not just to spur infrastructure spending, but also to encourage the creation of competing institutions from the private sector. “The needs of this country are such that just one development finance institution set up by the government cannot adequately cater to its requirements. Therefore, we see a future where a DFI which is partly funded by the government and raises capital from the market is also competing with private-sector DFIs,” she said.

The DFI will have an initial outlay of Rs 20,000 crore from the government with more being invested later, and will eventually be used for raising Rs 5 lakh crore over the next three to five years. The launch of a DFI will help PSBs, which have traditionally been the primary financiers for infrastructure projects, diversify their focus areas, said **Anil Patwardhan**, senior director, **Brickwork Ratings**. “This will enable the PSBs to reduce their exposure to infrastructure projects and enhance their credit to other industries.”

Bankers took a positive view of the announcements. SS Mallikarjuna Rao, MD & CEO, Punjab National Bank, said, “Further recapitalisation of Rs 20,000 crore for PSBs in FY22 is a welcome step. Setting up of a professionally managed development finance institution will catalyse infrastructure funding.”

In addition, pending disbursements from the previous round of recap should help too, said Prakash Agarwal, head – financial institutions, India Ratings and Research. “From the announcements made last year, Rs 14,000 crore is yet to be disbursed. These put together should provide reasonable support for PSBs to grow their balance sheet,” he added.

Some bank unions, though, took the view that the recapitalisation plan barely accounts for losses banks may suffer after a likely AQR exercise. Devidas Tuljapurkar, general secretary, Maharashtra State Bank Employees Federation, said, “The government has provided Rs 20,000 crore for recapitalisation of PSBs, which is inadequate if they have to grow in business. In the eventuality of an asset quality inspection, once again banks will have to face huge non-performing assets and may once again be dragged into losses, with their capital getting eroded.