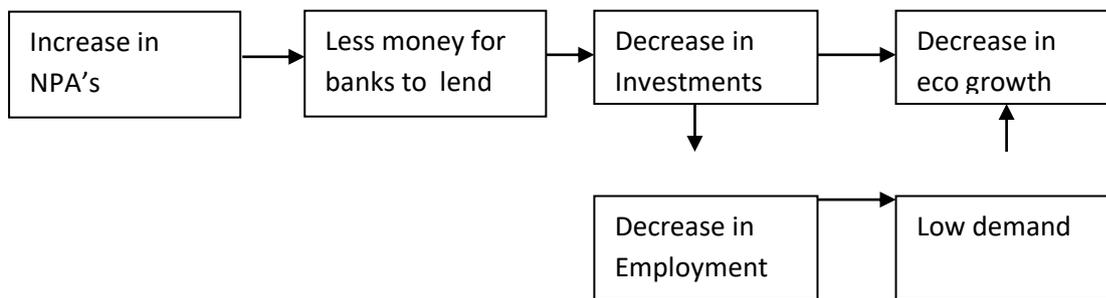


1) What do you understand by recapitalization of banks? Do you think recapitalization of banks by the government will help the public sector banks reduce their NPAs . Critically analyze. (250 words) 15 marks

Ans) Banks form the backbone of an economy. When the banks are in distress, the economy of that country also suffers. Recapitalisation is the process of government lending fresh capital to the banks. Recently government had pledged to lend 2.11 lakh crores to banks in FY19 under Mission Indradhanush.

As of March 2018, Gross NPA's amount to **11.6%** of total loans which according to **RBI's Financial Stability Report** can increase to **12.2%** by March 2019.

Effects of Increasing NPA's:



Reasons for the Increase in NPA's:

- 1) Reckless lending by the banks during boom period.
- 2) Wilful defaulters .
- 3) **Evergreening of loans** which means banks lending to corporates to pay off loans to other banks.
- 4) Slowdown of economy on the aftermath of Global Financial crisis.

How Recapitalisation will help banks to reduce NPA's:

- 1) Cash starved banks will get fresh capital to carry on lending activities and enhance their credit portfolio.
- 2) It will help the banks in Insolvency and Resolution process.
- 3) It will help banks to withstand the **Provisioning** process and take hefty hair cuts.
- 4) It will help the banks run till the **Recovery (4R's)** process gathers momentum.

However Recapitalisation has been criticized to be a temporary solution which addresses only the symptoms but not the causes of the symptoms.

- 1) It does not address the core structural issues of banks like **poor governance and weak regulatory mechanisms**.
- 2) It seems to **reward Inefficiency** of the banks making the workers unenthusiastic.
- 3) The process does not put in place a mechanism to prevent future NPA's.

Recapitalisation alone is not a panacea. To complement Recapitalisation, government has introduced a reform agenda called **Enhanced Access and Service Excellence (EASE)** which aims to create a **Responsive** and **Responsible** banking sector.