

## Performance-linked capital infusion will add value to banks

Our Bureau



R Gandhi, RBI Deputy Governor

*Public sector banks may have to redefine their strategies, says RBI's R Gandhi*

Chennai, February 5:

As new performance-based norms for capital infusion into banks are likely to come into play, public sector banks have to see if they need to redefine their business strategies, according to R Gandhi, Deputy Governor, Reserve Bank of India.

The move to link budgetary capital allocation with performance should be seen as a signal to introspect. In the long run, the new norms will add value, he said addressing the Great Lakes – Union Bank annual conference at the Great Lakes Institute of Management.

Bank valuations do not reflect the common perception that public sector banks are insulated from destabilising factors because of government support. The new norms will address this variation, he said.

### **On commercial lines**

However, public sector banks should be allowed to work on commercial principles and the costs of social banking provided separately. Increased revenues and valuations of the banks may compensate such budgetary support, he said. Resolving asset quality issues in public sector banks has also become urgent ahead of capital augmentation under the new dispensation.

Regulations must consider if asset quality deterioration is due to economic cycles and factors beyond the control of borrowers or if they are wilful delinquencies. If not, regulatory 'forbearance' is undermined by analysts and investors.

It is to put an end to such speculation about the asset quality issues 'asset quality review' was taken up on a

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comments

Arun Tiwari, Chairman and Managing Director, Union Bank of India, said in developing countries the state is the

dominant stakeholder in developing financial institutions and wield direct control on their operations.

Such ownership, he said, strengthens countercyclical response during crisis.

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