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Market Watch

Govt announces capital infusion of Rs 70,000 crore in state-run banks

BY SALONI SHUKLA, ET BUREAU | AUG 23, 2019, 08.33 PM IST

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MUMBAI: In a move aimed at improving the liquidity squeeze and boost lending, the finance minister [Nirmala Sitharaman](#) on Friday announced upfront capital infusion of Rs 70,000 crore in state-run banks. This is expected to generate an additional lending and liquidity in the financial system to the tune of Rs 5 lakh crore, she said at a press conference. The latest infusion in public-sector banks will happen by way of recapitalisation bonds.

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The [finance minister](#) further said that banks have decided to pass on [RBI](#) rate cut benefits to borrowers through MCLR reduction. While the RBI has cut rates by a total 110 basis points since February, the pass through has been less than desirable, forcing even the RBI Governor Shaktikanta Das, to seek help from banks to boost growth.

"This should help stir positivity and gradually bring back animal spirits. The steps taken to infuse liquidity in the banking and NBFC sector should help alleviate stress in the system and set in motion the recovery process," Ashish Shanker, Head- Investment Advisory, Motilal Oswal Private Wealth Management.

The latest budgeted infusion into state banks is below the Rs 1.06 lakh crore injected in the previous fiscal year, and the Rs 88,139 crore in FY18. The government has infused Rs 2.5 lakh crore in state-run banks since FY15, but for many the capital ratios have remained alarmingly low.

Banks will also launch repo rate and external benchmark-linked loan products that will lead to reduced easy monthly instalments for housing, vehicle and other retail loans.

"Working capital loans for the industry will also become cheaper," Sitharaman said.



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The minister also said that the Central Vigilance Commission had directed the Internal Advisory Committee within banks to categorise cases as vigilance and non-vigilance to ease fear of decision making and support genuine commercial decisions by lenders.

Addressing India's economic slowdown in the Indian economy and awakening the animal spirits is the primary challenge for Prime Minister Narendra Modi who got re-elected with a thumping majority. Equity markets have lost over Rs 15 lakh crores since the Union budget announced on July 5 which led to an increased clamour for a stimulus package.

"Finance Minister has aimed at restoring confidence and tackle the challenges of weak demand," Garima Kapoor, Economist, Elara Capital. "Quicker transmission of rate cuts, faster recapitalisation of banks and external benchmarking of rates are likely to aid credit off take. Recognition of issues in the economy and the measures to address them will help to ease concerns on growth slowdown."

The Indian economy which grew at its slowest pace in almost five years, lost the tag of the fastest growing major economy with unemployment rates falling drastically and fresh investment plunging to multi-year lows. The NBFC crisis lies at the heart of the current slump, with fund squeeze paralysing industries ranging from automobile, real sector and the consumption sector.

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