Bank crisis: RBI corrective action coming? Lenders have breached prompt corrective action caps

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A few lenders such as IDBI Bank, Oriental Bank of Commerce (OBC), Central Bank of India and Indian Overseas Bank (IOB) reported negative RoAs owing to losses made in the December quarter. For instance, IDBI Bank's RoA stood at -2.32% following R2,255-crore loss and Central Bank's RoA was at -0.79% owing to R606-crore loss in the Q3 of FY17.

Despite the annualised RoA for several banks having dropped below the RBI-mandated level, the central bank is unlikely to immediately impose the restrictions it has prescribed, and would probably wait for a few more quarters.

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RBI deputy governor SS Mundra had said in an earlier speech that PCA is a comprehensive framework that is assessed over time. A single isolated indication really does not result in any action, Mundra had observed.

According to central bank rules, a fall in the RoA below 0.25% would restrict banks from accessing or renewing costly deposits and CDs, borrowing from the interbank market, making dividend payments and expanding its staff.

In such a case, the central bank steps in and asks the bank concerned to contain administrative expenses, announce a special drive to reduce NPAs and contain fresh NPAs. The RBI also initiates corrective action if the net NPAs reach 10% of assets and if the capital adequacy falls below 9%.

The RBI could also restrict banks from incurring any capital expenditure other than for technological upgrades and for some emergency situations.

IoB's net bad loans stood at 14.32%, IDBI Bank's NNPA stood at 9.61% and OBC reported NNPA of 9.68% in the third quarter of the current fiscal.

The RoA numbers have assumed greater significance since the government infuses capital into public sector banks based on their weighted average of RoA for the last three years. Of R25,000 crore promised in FY17, the government has decided to infuse R22,915 crore in 13 PSBs, of which only 75% has been released. In FY18, it plans to infuse R10,000 crore into PSBs.