15

STANDING COMMITTEE ON FINANCE
(2014-15)

SIXTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

***[Action taken by the Government on the recommendations contained in Second Report of the Standing Committee on Finance on* 'Demands for Grants (2014-15) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)]**

FIFTEENTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

July, 2015, Sravana, 1937 (Saka)

FIFTEENTH REPORT

STANDING COMMITTEE ON FINANCE
(2014-2015)

(SIXTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

[Action taken by the Government on the recommendations contained in Second Report of the Standing Committee on Finance on **'Demands for Grants (2014-15) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)]**

Presented to Lok Sabha on 31 July, 2015

Laid in Rajya Sabha on 31 July, 2015

LOK SABHA SECRETARIAT
NEW DELHI

July, 2015, Sravana, 1937 (Saka)

CONTENTS

* *Not appended in the cyclostyled copy*

COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2014-15

Dr. Veerappa Moily - Chairman

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Sudip Bandyoypadhyay
5. Shri Nishikant Dubey
6. Shri P.C. Gaddigoudar
7. Dr. Gopalakrishnan C.
8. Shri Shyama Charan Gupta
9. Shri Prataprao Jadhav
10. Shri Rattan Lal Kataria
11. Shri Bhartruhari Mahtab
12. Shri Prem Das Rai
13. Shri Rayapati Sambasiva Rao
14. Prof. Saugata Roy
15. Shri Jyotiraditya M. Scindia
16. Shri Gajendra Singh Sekhawat
17. Shri Gopal Shetty
18. Shri Anil Shirole
19. Shri Shivkumar Udasi*
20. Dr. Kiritbhai Solanki
21. Dr. Kirit Somaiya

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Naresh Gujral
24. Shri A. Navaneethakrishnan
25. Shri Satish Chandra Misra**
26. Dr. Mahendra Prasad
27. Shri K.N. Balagopal***
28. Shri C.M. Ramesh
29. Shri Ajay Sancheti
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kh. Ginlal Chung	-	Committee Officer

---

*Nominated w.e.f. 24.02.2015 vide Bulletin Part -II dated 24.02.2015 against the vacancy caused due to induction of Shri Jayant Sinha, MP to the Union Council of Ministers w.e.f. 09.11.2014.

**Nominated w.e.f. 08.01.2015 vide Bulletin Part -II dated 12.01.2015 against the vacancy caused by retirement of Shri Brajesh Pathak, MP from Rajya Sabha.

***Nominated w.e.f. 06.05.2015 vide Bulletin Part - II dated 07.05.2015 against the vacancy caused by retirement of Shri P. Rajeeve, MP from Rajya Sabha.

INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having been authorized by the Committee, present this Fifteenth Report on action taken by Government on the Observations / Recommendations contained in the Second Report of the Committee (Sixteenth Lok Sabha) on "Demands for Grants (2014-15)" of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services And Disinvestment).

2. The Second Report was presented to Lok Sabha / laid on the table of Rajya Sabha on 16 December, 2014. The Action Taken Notes on the Recommendations were received from the Government *vide* their communication dated 13 March, 2015.

3. The Committee considered and adopted this Report at their sitting held on 16 July, 2015.

4. An analysis of the action taken by the Government on the recommendations contained in the Second Report of the Committee is given in the Appendix.

5. For facility of reference, the observations / recommendations of the Committee have been printed in bold in the body of the Report.

NEW DELHI
22 July, 2015
31 Ashadha, 1937 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Standing Committee on Finance.

REPORT

CHAPTER I

This Report of the Standing Committee on Finance (Sixteenth Lok Sabha) deals with action taken by the Government on the recommendations/observations contained in their Second Report on the Demands for Grants (2014-15) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) which was presented to Lok Sabha and laid in Rajya Sabha on 16 December, 2014.

2. Action taken notes have been received from the Government on 13 March, 2015 in respect of all the 30 recommendations/observations contained in the Report, which Government have accepted in principle. These have been analyzed and categorized as follows:

(i) Recommendations/Observations that have been accepted by the Government:

Recommendation Nos. 1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,17, 18,19, 20, 21,22,23,24,25,26,27,28,29.

(Total 29)
(Chapter- II)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Recommendation No. 30

(Total : 1)
(Chapter- III)

(iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:

Recommendation Nos. NIL

(Total NIL)
(Chapter -IV)

(iv) Recommendations/Observations in respect of which final replies by the Government are still awaited:

Recommendation No. NIL

(Total - NIL)
(Chapter- V)

3. The Committee desire that the replies to the recommendations / observations contained in the Chapter I of this Report may be furnished to them expeditiously, in any case not later than three months of the presentation of this Report.

4. The Committee will now deal with the action taken by the Government on some of their recommendations.

CAPITAL INFUSION IN PUBLIC SECTOR BANKS

Recommendation (Sl. No. 14)

5. The Committee understand that infusion of fresh capital was needed to enhance the capacity of the Public Sector Banks (PSBs) to meet the growing credit needs of the people of the country and also to comply with Basel III requirements. The Government had been infusing huge amount towards capitalization of PSBs over the years. In this regard, the Committee was repeatedly expressing their concern as such infusion from the budget cannot be an endless ritual as it encourages incompetence and inefficiency in the PSBs. The Committee had accordingly recommended that considering the fiscal consolidation and the need for maintaining capital adequacy in PSBs to meet Basel III norms, the PSBs should generate funds internally also for their recapitalization instead of depending on budgetary support alone. They had in the past also urged the Ministry of Finance to expedite the process of setting up a holding company to meet the capital requirements of PSBs. The Committee were, however, disappointed to see that the Government in BE 2014-15 have again made a provision of huge amount of Rs. 11,200.00 crore for capitalization of PSBs. Further, in the absence of specific roadmap / strategy of the Government in the meeting capital requirements of PSBs, it was not clear as to how the PSBs would be able to meet additional capital to the tune of Rs. 4.95 trillion to comply with Basel III norms and also to overcome the serious concern expressed by the Reserve Bank of India in their Financial Stability Reports (December, 2013 and June, 2014) over the lowest Capital Risk Weighted Assets Ratio (CRAR) of PSBs. Further, there was no light shed by the Ministry on the formation of the holding company. The Committee, therefore, while reiterating their earlier Recommendations, urged upon the Ministry to draw out a roadmap / strategy on complying with Basel III

norms by PSBs and for ensuring their healthy balance sheet without any further loss of time.

6. The Ministry of Finance in their action taken reply have stated that the Capital infusion by the Government in PSBs has been done with the twin objectives of adequately meeting the credit requirement of the productive sectors of economy as well as to maintain regulatory capital adequacy ratios in PSBs. The Government of India, as the majority shareholder, has been committed to keep all PSBs adequately capitalized. Government's infusion of capital in PSBs has been in addition to their internal accrual and capital conservation to enable the banks to maintain a comfortable level of Tier Capital to Risk Weighted Asset Ratio (CRAR). The average common equity for PSBs has been 8.2% and there has been no PSB below 6.5%. At present, RBI norms specify that banks should have at least 5.5% common equity and total of 9%, including additional tier-I-and tier II. As against the 9% that has been prescribed for March, 2015, the average of all PSBs has been11.19%. PSBs were more than adequately meeting the minimum regulatory ratio. They stated that in 2016, the norm would become 9.63% but they were comfortably covered. Even in 2019, the requirement would be 11.5% of CRAR.

7. Cabinet in its meeting dated 10.12.2014 allowed PSBs to raise capital from markets through FPO or QIP by diluting Government of India holding upto 52% in phased manner based on their stock performance, liquidity, market appetite and subject to such other conditions that may be prescribed for efficient use of capital and resources, on case to case basis with specific approval of Finance Minister to each bank.

8. The Ministry further added that few changes would also be made in investment criteria for pension and provident fund. Tier-I instruments to be issued by banks were being made eligible for investment by pension and provident fund. Banks would also be encouraged to restructure their business portfolio. They would have differentiated strategy for business expansion which would be customized according to their strength and capital available with them.

9. The Ministry, in response to the recommendation made by the Committee elsewhere, have also stated that it has been decided to infuse a sum of Rs. 6,990 crore in PSBs during 2014-15, through preferential allotment of equity in its favour. The methodology for arriving the amount to be infused in these banks has been based on efficiency parameters. First of all, weighted average of return on assets (ROA) for all PSBs for last three years put together was arrived at and all those who were above the average have been considered. This infusion of additional capital has been over and above the internally generated capital by these PSBs out of the net profits earned by them. The details of net profits earned by the PSBs during the years **2011-12, 2012-13 and 2013-14 is as per Annexure.** The net profits have been internally generated funds and ploughed back to capital after making payment towards dividend, tax on dividends and appropriation / transfer to various reserves as per regulatory prescriptions.

10. On the issue of Capital Adequacy of Banks, the Reserve Bank of India, in their Bulletin June 2015, has stated as under:

> "Higher level of capital adequacy is needed due to higher provisioning requirements resulting from deterioration in asset quality, kicking in of the Basel III capital norms, capital required to cover additional risk areas under the risk based supervision framework as also to sustain and meet the impending growth in credit demand, going forward.
>
> Though at present, the banking system is adequately capitalised, challenges are on the horizon for some of the banks. For the system as a whole, the CRAR has been steadily declining and as at the end of March 2015, it stood at 12.70 per cent as against 13.01 per cent as at the end of March 2014. Our concerns are larger in respect of the PSBs where the CRAR has declined further to 11.24 per cent from 11.40 per cent over the last year.
>
> The poor valuations of bank stocks, especially the PSBs, are not helping matters either, as raising equity has become difficult. When even the best performing PSBs have been hesitant to tap the markets for augmenting their capital levels. It would be difficult for the weaker PSBs to raise resources from the market........"

11. The Committee have noted the reply furnished by the Ministry of Finance that infusion of additional capital in Public Sector Banks was over and above their internally generated capital out of the net profits earned by them. From the

reply furnished, the Committee understand that the Ministry is quite comfortable with the Public Sector Banks on the issue of capital adequacy, as it has stated that *PSBs are "more than adequately meeting the minimum regulatory ratio".* However, in this context the Committee would like to refer to the observation made in the RBI Bulletin (June, 2015) which states that "*higher level of capital adequacy is needed due to higher provisioning requirements resulting from deterioration in asset quality, kicking in of Basel III Capital norms, capital required to cover additional risk areas under the risk based supervision framework as also to sustain and meet the impending growth in credit demand*". The Committee would, therefore, expect the government to consider the capital adequacy question from the above perspective articulated by RBI.

12. Further, as per RBI report, CRAR (Capital to Risk Weighted Asset Ratio) has declined to 11.24 per cent from 11.40 per cent for PSBs over the last year and that poor valuations of bank stocks , especially the PSBs, are making difficult for them to raise equity from the market. The RBI Bulletin also states that "when even the best performing PSBs have been hesitant to tap the markets for augmenting their capital levels, it would be difficult for the weaker PSBs to raise resources from the market." The Committee, therefore, desire that the Ministry should avoid complacency on this critical issue and take timely measures to strengthen and vitalise the banking sector in the country by fully meeting the capital adequacy norms of Public Sector Banks, keeping both the short and medium terms in view.

New Delhi;
<u>22 July, 2015</u>
31 Ashadha, 1937 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Standing Committee on Finance

Minutes of the Thirty-first sitting of the Committee on Finance

The Committee sat on Thursday, the 16th July, 2015 at 1500 hrs. to 1815 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri P.C. Gaddigoudar
4. Shri Shyama Charan Gupta
5. Shri Prataprao Jadhav
6. Shri Rattan Lal Kataria
7. Shri Bhartruhari Mahtab
8. Shri Rayapati Sambasiva Rao
9. Prof. Saugata Roy
10. Shri Gajendra Singh Sekhawat
11. Shri Gopal Shetty
12. Shri Anil Shirole
13. Dr. Kiritbhai Solanki
14. Dr. Kirit Somaiya

RAJYA SABHA

15. Shri Satish Chandra Misra
16. Shri K.N. Balagopal
17. Dr. Manmohan Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
2.	Shri Ramkumar Suryanarayanan	-	Additional Director
3.	Shri Kulmohan Singh Arora	-	Deputy Secretary

2. XX XX XX XX XX.

3. XX XX XX XX XX

4. Thereafter, the Committee took up the following draft Reports for consideration and adoption:

(i) Draft Report on Action Taken by the Government on the recommendations contained in the 2nd Report of the Committee on Finance on DFGs (2014-15) of the Ministry of Finance (Department of Economic Affairs, Expenditure, Financial Services and Disinvestment);

(ii) Draft Report on Action Taken by the Government on the recommendations contained in the 3rd Report of the Committee on Finance on DFG (2014-15) of the Ministry of Finance (Department of revenue);

(iii) Draft Report on Action Taken by the Government on the recommendations contained in the 5th Report of the Committee on Finance on DFGs (2014-15) of the Ministry of Corporate Affairs: and

(iv) Draft Report on Action Taken by the Government on the recommendations contained in the 6th Report of the Committee on Finance on DFGs (2014-15) of the Ministry of Statistics and Programme Implementation.

5. After some deliberations, the Committee adopted the above draft Reports without any modification and authorised the Chairperson to finalise them and present these Reports to Parliament.

The Committee then adjourned.

APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SECOND REPORT OF THE STANDING COMMITTEE ON FINANCE (SIXTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2014-15) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

		Total	% of total
(i)	Total number of Recommendations	30	
(ii)	Recommendations/Observations which have been accepted by the Government (vide Recommendation Nos.1 to 29)	29	96.70%
(iii)	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies (vide Recommendation at Sl. No. 30	01	3.30%
(iv)	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee	Nil	-
(v)	Recommendations/Observations in respect of which final reply of the Government are still awaited	Nil	-