
Encourage merger of small banks to create large ones - Assocham

Monday, 09 Nov, 2009

Industry body Assocham has asked the government to encourage mergers of smaller banks to create larger ones in order to mitigate risks arising out of surge in non performing assets.

The chamber said that on an average 26% rise in net NPAs have been registered by 21 public sector and commercial banks during the second quarter of the current financial year as against the same period last year.

It said that "The increase in NPA of the compared period should inspire the government to quickly move towards banks consolidation as it will bring down their risks and expand banks balance sheet size to global standard to take on emerging challenges in the financial sector."

As per its analysis, the aggregate NPA of 21 banks 19 public sector banks and two large private banks increased by 26% to INR 25137 crore in the second quarter of 2009-10 from INR 19920 crore against the year ago period.

However, the average capital adequacy ratio of the banks improved to 13.68% in the July to September quarter from 12.08% in the previous year.

Improvement in CAR reflects better financial health of banks while increase in NPAs is a matter of concern as it directly affects the solvency and profitability of banks.

Swati Piramal president of ASSOCHAM said that "If the NPAs and CAR reported by commercial banks are an indication of their financial strength, the second quarter results of Indian banking sector portray a mixed picture."

It further said the latest move by the RBI asking banks to increase their provisioning coverage ratio to a minimum of 70% by September 2010 is going to impact the profits of large number of banks.

It said that as against the PCR of 56% as on September 2009, the additional burden on this count, by one estimate will be around INR 13000 crores.

(Sourced from Zeenews.com)

For more news visit at www.steelguru.com