

**Headline:** Capital issues

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## Capital Issues

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Yes, the asset quality and the capitalisation of banks is a concern, because our economy is largely bank-financed. My primary focus at NSE is the development of [capital] markets. I don't think we would be able to achieve our growth potential if we didn't get market development right and we were only dependent on bank financing for growth. The banks are constrained because asset resolution has taken a long time.

As a result, the public sector banks are undercapitalised, given the size of the asset quality problem. My hope is that with what's going on with the bankruptcy process, as the larger cases get sorted out, it will free up capital for the banks. They do require more capital from the government and other shareholders. But resolving the assets is important, because it takes up a lot of management time.

What has happened as part of this process is a certain degree of risk aversion has crept into the Indian system. That risk aversion leads to banks being very conservative in lending. That is a cause for concern because access to capital is important if you want to grow at higher rates. India's public sector banks [account for] 70% of the banking system. I don't see this situation...getting sorted out in the immediate future....

Unless we get private investment and export growth, overall economic growth will be constrained. The macro picture faces some headwinds.

*From "How India's NSE Fosters a Culture of Investment"*