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Financial Rehabilitation of Public Sector Banks: Conceptual and Policy Aspects

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Financial Rehabilitation of Public Sector Banks: Conceptual and Policy Aspects

Suman K. Bery

Summary

A change in the lenient and discretionary accounting conventions and adoption of a more uniform and less subjective asset classification rules have exposed the weak financial position of the public sector banks. As the profits of these banks are insufficient to cover the provisioning requirements of the newly adopted accounting norms, the government has outlined a set of broad policy guidelines to restore the financial viability of these banks through allocation of government capital and allowing the stronger banks to tap the capital markets. This paper evaluates the policy options before the government focusing on the initial financial decisions that need to be taken while more difficult restructuring decisions are considered.

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