



# Special Zero Coupon Recapitalisation Bonds

## Why in News

Recently, the government has used **financial innovation to recapitalise Punjab & Sind Bank** by issuing the bank **Rs. 5,500 crore** worth **Special Zero Coupon Recapitalisation Bonds**.

- Punjab & Sind Bank is a **Government of India undertaking**.

## Key Points

### ▪ Bank Recapitalisation:

- It means **infusing more capital in state-run banks** so that they meet the capital adequacy norms.
  - Indian public sector banks are emphasized to maintain a **Capital Adequacy Ratio (CAR) of 12%**.
  - CAR is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.
- The government, **using different instruments**, infuses capital into banks facing shortage of capital. As the government is the biggest shareholder in public sector banks, the responsibility of bolstering banks' capital reserves lies with the government.
- The government infuses capital in banks **by either buying new shares or by issuing bonds**.

### ▪ Reason for Recapitalisation:

- In compliance with **Reserve Bank of India (RBI)** guidelines which are based on **Basel norms** requiring banks to maintain certain amounts of capital reserves.

### ▪ Recapitalisation Bonds:

- The government **issues bonds which are subscribed by banks**. The money collected by the government goes to banks in the form of equity capital as the government increases its share of equity holding, thereby shoring up banks' capital reserves.
- The money invested by banks in recapitalisation bonds is classified as an investment which earns them an interest. This **helps the government in maintaining its fiscal deficit target** as no money directly goes out from its coffers.

### ▪ Special Zero Coupon Recapitalisation Bonds :

- These are special types of bonds **issued by the Central government specifically to a particular institution**.
- **Only those** banks, whosoever is **specified, can invest** in them, **nobody else**.
- It is **not tradable**, it is **not transferable**. It is **limited** only to a **specific bank**, and it is for a **specified period**.
- There is **no coupon**, it is zero coupon, it is **issued at par** and will be **paid at the end of the specified period**.

- **Coupon** is the Interest which the Investor gets on a bond.

- It is held at the **Held-To-Maturity (HTM)** category of the bank as per the RBI guidelines.
  - **HTM** securities are purchased to be **owned until maturity**.
- These are instruments which are a **variation of the recapitalisation bonds** but effectively meet the same purpose, and these are **issued in conformity with the RBI guidelines**.
- **Financial Innovation:** As the issuance of these special bonds will **not affect the fiscal deficit** while at the same time **provide much needed equity capital to the bank**.
- **Difference Between Normal Zero Coupon Bonds and Special Zero Coupon Bonds:**
  - **Zero Coupon Bonds:**
    - **Zero-Coupon Bond**, also known as the **pure discount bond or deep discount bond**, is purchased at a discounted price and **does not pay any coupons or periodic interests to the fundholders**.
    - The **difference** between the **purchase price** of a zero coupon bond and the **par value at the time of maturity**, indicates the **investor's return**.
    - The Zero Coupon bonds **generally** come with a **time horizon of 10 to 15 years**.
  - **Difference: Special Zero Coupon Bonds** are being **issued at par**, there is no interest however **Normal Zero Coupon Bonds** are **issued at discount** therefore they technically are interest bearing.

## Bonds

- A bond is a **fixed income instrument** that represents a loan made by an investor to a borrower. In simpler words, a bond acts as a **contract between the investor and the borrower**.
- Mostly Companies and Government issue bonds and Investors buy those bonds as a **savings and security option**.
- These bonds **have a maturity date** and when once that is attained, the issuing company needs to pay back the amount to the investor along with a part of the profit.

[Source: IE](#)

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