Govt mostly gets its way, but RBI has a deal it can live with

9-Hr Board Meet Paves Way For Boost To Lending

Sidhartha, Mayur Shetty & Surojit Gupta | TNN

RELIEF FOR SMALL BUSINESSES, WEAK BANKS

MOVE: Loan restructuring scheme for small businesses with credit facility of up to ₹25 crore

IMPACT: Available up to March 2020, will help tide over funds shortage

MOVE: More time for banks to create capital buffer

IMPACT: Will cut capital need of banks by ₹30,000-40,000 crore, boost lending by ₹3.5-4 lakh crore

MOVE: A panel to examine capital framework; i.e. reserves RBI should keep

IMPACT: A joint govt-RBI appointed committee, instead of RBI alone, taking a call

MOVE: RBI's acceptance of board advice

IMPACT: Central bank becomes board-driven entity instead of top brass deciding all issues

> "The meeting was cordial. Everybody agreed it was time to get off the front pages of newspapers
>
> **A BOARD MEMBER TO TOI**

■ Govt to push for more at next month's meet ■ The mood inside and outside P 15

FULL COVERAGE: P 15 & 16

Mumbai/New Delhi: Tensions between the government and the Urjit Patel-led RBI eased on Monday with the central bank appearing to climb down on several issues pushed by New Delhi, such as loan restructuring for small businesses, easier norms for weak banks, and pumping of more cash into the system, at a board meeting that lasted nine hours.

The government totted up gains in terms of having a say in defining what should be the appropriate level of reserves—in short, the money RBI can retain from its operations—as well as an understanding that could result in banks potentially lending an additional Rs 4 lakh crore ahead of the 2019 LS polls. While the Centre won't be able to tap into RBI's existing kitty, it may be able to extract a larger share of the surplus in future, if a panel, to be named jointly by the RBI and government, recommends it.

RBI's concessions came against the looming threat of the Centre invoking a never-used rule to issue directions to the central bank to act on its key concerns. The announcement came in a rare but detailed statement issued after the meeting, its forthrightness appeasing the government, which was annoyed by what it saw as the RBI's defiance even on issues the two sides had agreed on at the October 23 meeting.

Monday's meeting was held in what some said was a "congenial and conciliatory" atmosphere. "Everybody agreed it was time to get off the front pages," said a director. But a majority of independent directors, with possibly a lone exception, and the two central nominees, economic affairs secretary S C Garg and financial services secretary Rajiv Kumar, pressed RBI on improving credit flow to small businesses and boosting liquidity.

▶ **Board-driven process, P 16**

After Three Weeks Of Hostilities, Govt And RBI Step Back From The Brink, Compromise, And Find Some Common Ground

More steps for MSMEs, weak banks likely at next meeting

Lower Risk Weight For Small Biz May Result In Cheaper Loans

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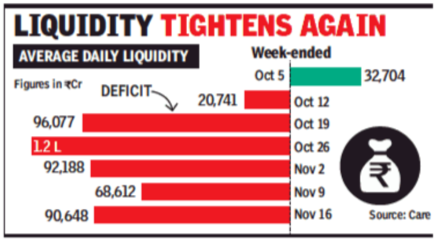

New Delhi: The Urjit Patel-led RBI may ease the risk weights for lending to micro, small and medium enterprises (MSMEs), helping lenders pare interest rates on loans to small businesses, which have been reeling under the pressure of a credit crunch, apart from facing stress in the wake of payment delays from large companies.

On Monday, the central bank agreed to open a restructuring window for MSMEs, although it initially suggested that small businesses were more prone to loan defaults.

Sources said the decision may come at the next meeting scheduled for December 14, and could be accompanied by a relaxation in the prompt corrective action (PCA) framework for so-called weak banks. The revised stipulation pushes banks into PCA and puts curbs on lending and expansion, based on their classification under the three risk categories. RBI looks at the capital base, asset quality measured by the level of non-performing assets and the profitability that is measured by return on assets.

At Monday's board meeting, the regulator agreed to relax the first parameter by extending the deadline up to March 2020 for banks to build a capital buffer that can be tapped during tough times. This move will not only help banks conserve capital but also enable them to lend more. As the next step, the government is hoping that RBI will do away with the return on asset criteria that will further ease the pressure on banks.

With the two parameters eased, the government expects some of the 11 state-run banks that are currently under PCA framework to come out of the framework and lend faster. "With regard to banks under PCA, it was decided that the matter (PCA) will be examined by the Board for Financial Supervision of RBI," the regulator said in a statement, indicating that some of the banks may come out of the ambit.

The government has argued that the revised PCA norms that kicked in from April 2017 are more stringent than what was prescribed earlier and has put further pressure on the system. While RBI has maintained that the finance ministry was consulted, officials said that they were unaware of the regulatory move and would have factored in the impact, while allocating more capital to banks.

Bank stocks rally ahead of board meet

TIMES NEWS NETWORK

Mumbai: No news from the neighbouring Mint Street was good news for Dalal Street's bulls on Monday, a day when India Inc waited with bated breath to hear the latest between the government and the central bank. Select banking stocks rallied, which some fund managers took lack of any information as an indication that the RBI will infuse some much-needed liquidity into the financial system.

Troubled lender Yes Bank rallied over 7%, while IndusInd Bank ended 0.8% higher and HDFC Bank closed 2.6% higher and on a day when the sensex rallied 318 points, or nearly 1%, to 35,775. Among the other sensex stocks, Reliance Industries, ITC and L&T contributed the most, BSE data showed. "No news about the meeting, so people take it as normalcy," said a top fund manager. "Banking stocks have improved...it may mean something," said another top fund manager.

For the leading NBFCs and housing finance companies, however, it was a mixed bag.

Interest in RBI goes beyond interest rates

How Battle For Mint Street Hit The Headlines

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Cameras in front of RBI HQ

Mumbai: The general public's interest in the Reserve Bank is for the most part limited to just one thing — fixing of interest rates. Lower rates can bring down EMIs on home and consumer loans, while retired folks mourn their reduced earnings from deposits. Higher rates work in reverse.

But on Monday, the crowd of TV cameramen outside the central bank's ivory tower-like headquarters at Mumbai's Mint Street was as sure a sign as any that the esoteric — some say opaque — workings of RBI were suddenly considered newsworthy for a larger audience.

The change in image started with 'Raghuram Rajan the Rockstar' who made the RBI — which by the very nature of any central bank, is supposed to be staid and stodgy — look kind of 'sexy'. But that was largely personality-driven because of the way Rajan walked and talked. The general public still wasn't much the wiser about the role and remit of RBI.

Urjit Patel is the antithesis of his predecessor. Where Rajan was flamboyant and oft-quoted in the media, Patel is reticent to be point of being reclusive. and stays as far away from the spotlight as possible. He hasn't even moved into the governor's bungalow, preferring to stay where he was as deputy governor, with his 83-year-old mother.

MOOD OUTSIDE

And yet, what some view as Patel's undeclared civil war against the government has kept the RBI in the news for the last three weeks. Acknowledging that the central bank was now the focus of popular interest, and perhaps in a nod to greater transparency, RBI's security staff on Monday allowed cameras to be set up outside the gates ahead of the board meeting, marking a departure from the past when the 'no-photography' order on the signboard was strictly enforced.

Most of the external board members, including Tata Sons chairman N Chandrasekaran and swadeshi ideologue S Gurumurthy, were in by 10am, at least half an hour before the meeting was to begin in the 15th floor conference room. The previous meeting of the board, on October 23 — which ended inconclusively after a reportedly stormy exchange between RBI nominees and at least one independent director — lasted close to eight hours. Monday's lasted an hour longer, ending at 7.30pm. This time, it was "conclusive".

RBI saves its current reserves, but govt expects more next year

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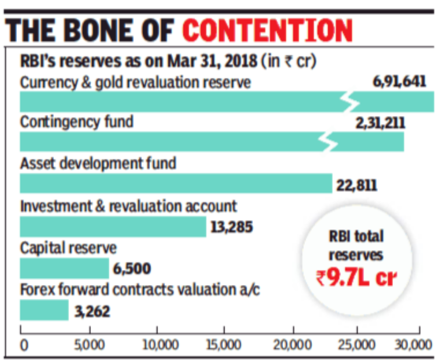

Mumbai: The Reserve Bank of India (RBI) has managed to protect its Rs 9.7-lakh-crore reserve kitty with its board agreeing to have a panel determine how much capital it needs to maintain and how much can be distributed from future surplus to the government. The Centre has also not lost as prospects of a higher share of future surplus allows it to budget for a larger chunk of revenues from the central bank in its 'Vote on Account' for next year.

"The RBI board decided to constitute an expert committee to examine the Economic Capital Framework (ECF), the membership and terms of reference of which will be jointly determined by the government and the RBI," the central bank said in a statement on Monday.

The ECF refers to a formula for deciding the capital adequacy ratio for RBI. This is a positive development for those fearing that the government will tap into existing reserves of the central bank.

Of the existing reserves, a bulk of the funds are in contingency funds and in revaluation reserves. The contingency reserves, by definition, cannot be touched except in a crisis. To tap revaluation reserves, the RBI will have to sell assets and shrink its balance sheet. This will upset the money supply in the economy. Even if the to-be-constituted committee recommends higher transfers to government, it will result in lesser accretion to reserves and will not deplete the RBI's balance sheet.

It was earlier speculated that the Centre might press for the RBI transferring a third of its Rs 9.7-lakh-crore total reserves to the government. The speculation was based on some reports stating that RBI holds over Rs 3 lakh crore of surplus reserves.

A higher surplus transfer for 2018-19 is likely because the central bank's earnings are expected to be much more robust than 2017-18.

In the current fiscal, the RBI has been intervening heavily in the foreign exchange and bond markets. The central bank's earnings soar whenever there is forex volatility as it ends up making profits while selling dollars. For 2017-18, the RBI transferred a dividend of Rs 50,000 crore to the government.

Former governor Raghuram Rajan had proposed a formula-based model for fund transfer to the government. He had also warned against liquidating assets to transfer funds to government, stating that to neutralise the impact, the RBI would have to conduct money market operations by selling bonds. If the government had to issue fresh bonds in order to receive money from the central bank, it would be in the same position as before.

Acharya was defiant, but isolated

Surojit Gupta & Sidhartha | TNN

New Delhi: Many had expected the RBI board meeting to witness fireworks. But, it was largely cordial and conducted professionally with the two warring sides — RBI nominees and government officials — showing a willingness to move on from three weeks of bitterness. The meeting began with presentations by economic affairs secretary S C Garg and financial services secretary Rajiv Kumar. This was followed by a presentation by RBI, listing out the steps it had taken to address some of the concerns on MSMEs, which the government had flagged, as well as the liquidity situation.

"Both sides showed flexibility and accommodation. The discussions were congenial, comprehensive and rigorous," said an independent director. There was a recognition to acknowledge the issues and move on.

But it wasn't smooth sailing all along, with RBI deputy governor Viral Acharya initially standing his ground on a loan restructuring package for small businesses. Barring only a few independent directors, support for him was thin as industry representatives and other nominees dug their heels, pointing to the need to address the stress.

MOOD INSIDE

"The differences have narrowed but not totally eliminated," said another director, while highlighting the "maturity and wisdom" shown by both sides in de-escalating the tension. The director also said the board acknowledged that financial stability was RBI's domain but issues of credit for small businesses needed to be addressed. The two directors said RBI brought in a lot of data to help in decision-making, including highlighting some of the steps already taken. But, the chapter is not closed yet. At the next board meeting on Dec 14, at least two more contentious issues — governance and liquidity for non-banking finance companies — are expected to be taken up.