RBI board meeting concludes, board will work on lifting some state run banks out of PCA

BY ET BUREAU | UPDATED: NOV 20, 2018, 10.12 AM IST

MUMBAI: The Reserve Bank of India board agreed to restructure small-scale loans and set up a committee to discuss the controversial issue of transfer of surplus reserves to the government as the central bank and the finance ministry appeared to put aside some of their differences to resolve some key issues.

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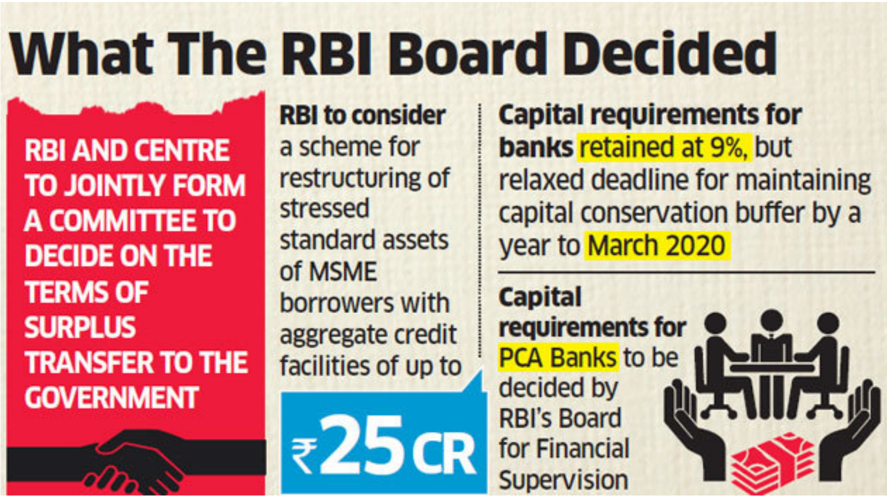
The RBI board, which met for a marathon 10 hours on Monday, also decided to consider relaxation of lending norms for banks under the Prompt Corrective Action regime, a key demand of the government. The RBI's Board for Financial Supervision would study this issue. Banks would also get a breather in meeting the capital adequacy goals under the Basel norms, the central bank said in a statement on Monday.

The meeting of 18 board members, including Tata Sons chairman N Chandrasekaran and economic affairs secretary Subhash Chandra Garg, was cordial despite public confrontation between RBI and government officials, people in the know said. But the differences between the two sides on other key issues are unlikely to be resolved soon with the next board meeting likely to take up the equally contentious issue of the RBI's governance structure.

The government is keen that the board plays a bigger role. The board meet on December 14 is also likely to consider PCA norms and the liquidity issue. While there was a demand for special window of liquidity for non-banking finance companies after credit markets tightened following the default by Infrastructure Leasing & Financial Services Ltd, RBI appears to have convinced the government it was not essential at this point with companies continuing to borrow money from the market.



'Responsible Outcome'
"The 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 of India and the RBI,'' said the statement. "The board also advised that RBI should consider a scheme for restructuring of stressed standard assets of MSME borrowers with aggregate credit facilities of up to Rs 250 million."

Relations between the government and RBI deteriorated in the past few months as they differed over how to ease lending conditions amid tightening credit markets. With the Centre having cited Section 7 of the RBI Act in a series of communications with the regulator to initiate discussions, the relations appeared frozen as the RBI did not respond. The Section, which hasn't been used before, allows the government to give directions to the RBI in matters of public interest. Monday's discussions were outside the purview of Section 7.

"The outcome was very calibrated and responsible, balancing the need for enhancing credit flow with maintaining financial stability.

Restructuring stressed assets of mid-sized and small SMEs is likely to provide them a buffer during a period when liquidity and cash flows have been squeezed. For the broader banking system, stretching the implementation of stringent Basel III plus norms will release high-cost capital, thereby reducing borrowing costs," said Saugata Bhattacharya, chief economist, Axis Bank. "The mutual agreement to reconsider RBI's capital framework signals a flexibility in releasing sufficient reserves for growth capital while ensuring financial bulwarks for managing systemic risk."

While the board did not come up with a special window for NBFCs, it has liberalised the implementation of the capital adequacy norms. "The board, while deciding to retain the CRAR at 9%, agreed to extend the transition period for implementing the last tranche of 0.625% under the Capital Conservation Buffer (CCB), by one year," the statement said. "With regard to banks under PCA, it was decided that the matter will be examined by the Board for Financial Supervision (BFS) of RBI.''

Capital Conservation Buffer is the additional capital that banks have to own beyond the mandatory minimum capital requirements. This postponement means banks have more time till 2020 to meet these norms. Despite postures by some in the government, finance minister Arun Jaitley on Saturday made it clear that policymakers should not attempt quick fixes to boost growth, but also said that the shortage of liquidity should not stifle economic expansion.

"If we have to improve on this (growth), we need a certain level of credit flow as far as entrepreneurs are concerned... see that liquidity is maintained," he said at the Economic Times Awards for Corporate Excellence. Jaitley said the country is still paying the price for shortcuts taken after the 2008 financial crisis. The government-RBI differences came to a head after the financial markets were squeezed when mutual funds halted buying commercial papers of NBFCs and housing finance companies. Investors feared that the asset-liability mismatch of these firms could dent their profitability and make growth difficult. These firms borrowed for 6 months or one year and lent for a longer time.

Among the flashpoints in the dispute between the two was an RBI circular in February that tightened default norms and an October speech by deputy governor Viral Acharya that warned about the dangers of undermining regulatory autonomy. The RBI also resisted the state's request for a higher payout from the central bank's reserves, apart from measures that the government had sought to increase credit growth in order to boost economic activity and generate jobs.