

# No liquidity crisis in NBFC segment: Reserve Bank of India

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In the first high-level meeting since Reserve Bank of India (RBI) deputy governor Viral Acharya's criticism of the government's interference, the central bank and the finance ministry on Tuesday differed in their assessment of the liquidity crunch being faced by non-banking financial companies (NBFCs).



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liquidity crunch being faced by non-banking financial companies (NBFCs). The central bank is learnt to have asserted that there is no liquidity crunch.

However, the finance ministry feels (based on its interactions with some NBFCs) that any such concern needs to be addressed.

In a meeting of the Financial Stability and Development Council (FSDC) on Tuesday, chaired by finance minister [Arun Jaitley](#), the finance ministry asked the RBI to ensure that the crisis at Infrastructure Leasing & Financial Services doesn't spill over to the broader financial system. Both the department of financial services and the RBI also agreed to exchange inputs and data on liquidity crunch in the NBFC segment and ensure the situation doesn't turn into a crisis.

The FSDC meeting was attended by chiefs of regulators, including RBI, Sebi, PFRDA and IRDAI and IBBI, apart from key secretaries of the ministries of finance, corporate affairs and electronics and IT. Unlike in the past, all the four RBI deputy governors, including Acharya, attended Tuesday's FSDC meeting, along with governor Urjit Patel. Principal economic advisor in the finance ministry, Sanjeev Sanyal, gave a presentation on the state of the economy.

Sources said the RBI governor said there is no liquidity crunch in the system, barring certain sectors and assured the banking regulator are keeping a close watch on the financial sector. Among other things, the issue concerning cyber-security in financial markets also came up for discussion.

For its part, the RBI has said inflation is under control and there is no tightening of liquidity, said the sources. The central bank welcomed the \$75-billion currency swap agreement between India and Japan, saying it will have a positive impact on the economy.

Non-food credit growth rose 12.4% as of August 31, against 5.5% a year before. However, credit to industry continues to remain tepid, with a 1.9% rise as of August 31, compared with -0.3% a year before.

Cautioning against a looming credit crunch, however, a recent Credit Suisse report says even as bank credit growth in the last two years has averaged at 7%, a strong 20%-plus growth in the NBFC credit aided overall credit expansion beyond 10%. The imminent slowdown in NBFC growth could lead to a domestic credit crunch, and overall credit growth could drop below 10%, as state-run banks continue to be constrained by capital and private banks by liquidity. "Growth slowdown in NBFC will impact stocks' premium multiples," it says.

Already, the mutual fund exposure to NBFC debt at 30% of their debt asset under management is outsized and unlikely to sustain. As much as 55% of this is of short tenor. Large maturities over the next two months will be a challenge, given many NBFCs have mutual funds contributing 25-40% of their borrowings, says the report.

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