RBI board meet strikes a middle ground

OUR BUREAU

Bharat Doshi, a member in the central board of directors of the RBI, arrives for a board meeting at the central bank headquarters in Mumbai. - Reuters

MUMBAI, NOVEMBER 19

After a marathon nine-hour meeting, the Reserve Bank of India's central board on Monday took the middle ground in a bid to defuse rising tension between the government and the central bank.

On the one hand, the board has accommodated some of the demands of the government, including setting up a committee to review the Economic Capital Framework (ECF); on the other, it allowed the central bank to take the final decision on relaxing the Prompt Corrective Action (PCA) framework.

However, no decision was taken on issues related to easing credit flow to MSMEs.

The board decided to constitute an expert committee to examine the ECF to determine the level of reserves the central bank should hold vis-a-vis its assets so that the excess can be transferred to the government. This was one of the key demands of the government. The membership and terms of reference of the new committee will be jointly determined by the government and the RBI.

With regard to banks under PCA, which restricts banks' ability to lend and expand operations, the board decided that the matter would be examined by the Board for Financial Supervision (BFS) of the RBI.

The government wants the PCA framework relaxed so that the 11 public sector banks, which are under the framework, can step up lending to support growth

The board also advised that the RBI should consider a scheme for restructuring stressed standard assets of micro, small and medium enterprise (MSME) borrowers with aggregate credit facilities of up to ₹25 crores. But the demands of some of the board members, representing the government view, for easing credit flow to MSMEs, opening a separate liquidity for non-banking finance companies, and a differential capital adequacy regime (with banks having global presence following Basel-III capital adequacy norms and purely domestic banks with relatively lower capital adequacy prescription) were not met. The RBI statement was silent on these issues.

The meeting, which was expected to be stormy in the backdrop of government nominees and some independent directors and RBI Deputy Governor on the central board publicly airing their differences on a host of issues, is understood to have been cordial.

The board also decided to ease capital pressure on banks by allowing them one more year to meet the Capital Conservation Buffer (CCB). This buffer is aimed at ensuring that banks build up capital buffers during non-stress periods so that they can be drawn down when losses are incurred. The board decided to extend the transition period to implement the last tranche of 0.625 per cent under CCB, by one year — up to March 31, 2020. By March-end 2020, banks can now achieve CCB of 2.5 per cent of their risk-weighted assets.

However, the capital to risk-weighted assets ratio, which is the amount of capital banks need to hold for making loans and absorbing possible losses, has been retained at 9 per cent.

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Each organ of the government is expected to take certain actions for the good of the country. The organs are not individual fiefdoms to arrogate some powers they think they have. They should be preparing papers describing the need for certain actions with certain expected results. When such expected results of those organs are in conflict, they have to meet and discuss why they intend to take such action and which alternative should be best for the welfare of the people. In the absence of such meaningful discussions, the media and people that are uninformed and with juvenile tendencies will mistake it to be a boxing match and egg the sides on.

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