

## RBI Board Meeting - Highlights

### What is the issue?

\n\n

\n

- The meeting of the Board of Directors of the Reserve Bank of India (RBI) was held recently. Click [here](#) to know more on the Board.

\n

- The outcome of the meeting gains significance in the backdrop of the [tussle](#) between the RBI and the Government.

\n

\n\n

### What are the highlights?

\n\n

\n

- The central bank and the finance ministry appeared to put aside some of their differences to resolve some key issues.

\n

- **Surplus** - It was decided to set up a committee to discuss the controversial issue of [surplus reserves](#) transfer to the government.

\n

- The Board discussions were outside the purview of [Section 7](#).

\n

- **ECF** - The board decided to constitute an expert committee to examine the Economic Capital Framework (ECF).

\n

- The membership and terms of reference of ECF will be jointly determined by the Government and the RBI.

\n

- **Lending** - The Board also decided to consider relaxation of lending norms for banks under *Prompt Corrective Action* regime.

\n

- The RBI's Board for Financial Supervision would study this issue.

\n

\n\n

\n

- **Basel Norms** - The board decided to retain the CRAR (Capital to Risk (Weighted) Assets Ratio) at 9%.  
\n
- It has however liberalised the implementation of the capital adequacy norms under the Basel III norms.  
\n
- It agreed to extend the deadline by one year, for banks to set aside an additional 0.625% as capital conservation buffer (CCB).  
\n
- CCB is the additional capital that banks have to own beyond the mandatory minimum capital requirements.  
\n

\n\n

- The postponement means banks have more time till 2020 to meet these norms.  
\n
- Stretching the implementation of the norms will release high-cost capital, thereby reducing borrowing costs.  
\n
- **NBFCs** - There was a demand from the government for special window of liquidity for [non-banking finance companies](#).  
\n
- But the RBI appears to have convinced the government on this.  
\n
- It said that it was not essential at this point, with companies continuing to borrow money from the market.  
\n
- **MSME** - 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.  
\n
- Restructuring stressed assets of mid-sized and small SMEs is likely to provide them a buffer.  
\n
- This would ease credit flow to MSMEs and address their credit concerns, when liquidity and cash flows have been squeezed.  
\n
- **Next meet** - The differences between RBI and the Government on other key issues are unlikely to be resolved soon.  
\n
- The next board meeting is thus likely to take up the equally contentious issue of the RBI's governance structure.

- \n
- It is also likely to consider PCA norms and the liquidity issue.
- \n

\n\n

## What The RBI Board Decided

**RBI AND CENTRE TO JOINTLY FORM A COMMITTEE TO DECIDE ON THE TERMS OF SURPLUS TRANSFER TO THE GOVERNMENT**



RBI to consider a scheme for restructuring of stressed standard assets of MSME borrowers with aggregate credit facilities of up to

**₹25 CR**

Capital requirements for banks retained at 9%, but relaxed deadline for maintaining capital conservation buffer by a year to March 2020

---

Capital requirements for PCA Banks to be decided by RBI's Board for Financial Supervision



\n\n

### What is the significance?

\n\n

- \n
- The Board has played a significant role, in fact, for the first time in recent memory, from being just an advisory body.
- \n
- The decisions taken address the concerns of both the Centre and the central bank.
- \n
- The discussions balanced the need for enhancing credit flow as well as maintaining financial stability.
- \n

\n\n

# Finding a way forward

## What the Centre wanted from the RBI

- Aligning capital norms of banks to Basel levels
- Relaxation of Prompt Corrective Action framework on 11 PSBs
- Easier credit for MSMEs
- Transfer of part of the RBI's reserves
- Special liquidity window for NBFCs
- Fixing issues of governance in RBI

## What the RBI Board meet has decided

- No change in Basel norms; deadline pushed back by a year for the last tranche
- Prompt Corrective Action on banks issue to be examined by RBI department
- Debt recast for MSME borrowers with loans of up to ₹25 cr. to be considered
- Committee to be set up to examine the Economic Capital Framework of RBI



## Left undecided

- Special liquidity window for NBFCs
- Fixing issues of governance in RBI

\n\n

\n\n

**Source: Economic Times, The Hindu**

\n\n

## Quick Fact

\n\n

## Prompt Corrective Action (PCA)

\n\n

\n

- RBI has initiated prompt corrective action (PCA) in as many as 11 PSBs, which is primarily an action plan for weak and troubled banks.

\n

- The RBI has put in place some trigger points to assess, monitor and control banks.

\n

- The trigger points are on the basis of CRAR (a metric to measure balance sheet strength), NPA and ROA (return on assets).

\n

- Based on each trigger point, the banks have to follow a mandatory action plan. RBI could take discretionary action plans too apart from these.

\n

- It prohibits them from undertaking fresh business activities such as opening branches, recruiting talent or lending to risky companies.

\n

\n



**SHANKAR**  
**IAS PARLIAMENT**  
*Information is Empowering*