RBI Board Meeting - Highlights

What is the issue?

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- 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.
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- The outcome of the meeting gains significance in the backdrop of the tussle between the RBI and the Government.
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What are the highlights?

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- The central bank and the finance ministry appeared to put aside some of their differences to resolve some key issues.
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- **Surplus** - It was decided to set up a committee to discuss the controversial issue of surplus reserves transfer to the government.
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- The Board discussions were outside the purview of Section 7.
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- **ECF** - The board decided to constitute an expert committee to examine the Economic Capital Framework (ECF).
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- The membership and terms of reference of ECF will be jointly determined by the Government and the RBI.
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- **Lending** - The Board also decided to consider relaxation of lending norms for banks under *Prompt Corrective Action* regime.
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- The RBI’s Board for Financial Supervision would study this issue.

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- **Basel Norms** - The board decided to retain the CRAR (Capital to Risk (Weighted) Assets Ratio) at 9%.
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- It has however liberalised the implementation of the capital adequacy norms under the Basel III norms.
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- It agreed to extend the deadline by one year, for banks to set aside an additional 0.625% as capital conservation buffer (CCB).
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- CCB is the additional capital that banks have to own beyond the mandatory minimum capital requirements.
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- The postponement means banks have more time till 2020 to meet these norms.
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- Stretching the implementation of the norms will release high-cost capital, thereby reducing borrowing costs.
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- **NBFCs** - There was a demand from the government for special window of liquidity for non-banking finance companies.
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- But the RBI appears to have convinced the government on this.
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- It said that it was not essential at this point, with companies continuing to borrow money from the market.
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- **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.
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- Restructuring stressed assets of mid-sized and small SMEs is likely to provide them a buffer.
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- This would ease credit flow to MSMEs and address their credit concerns, when liquidity and cash flows have been squeezed.
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- **Next meet** - The differences between RBI and the Government on other key issues are unlikely to be resolved soon.

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- The next board meeting is thus likely to take up the equally contentious issue of the RBI's governance structure.
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- It is also likely to consider PCA norms and the liquidity issue.
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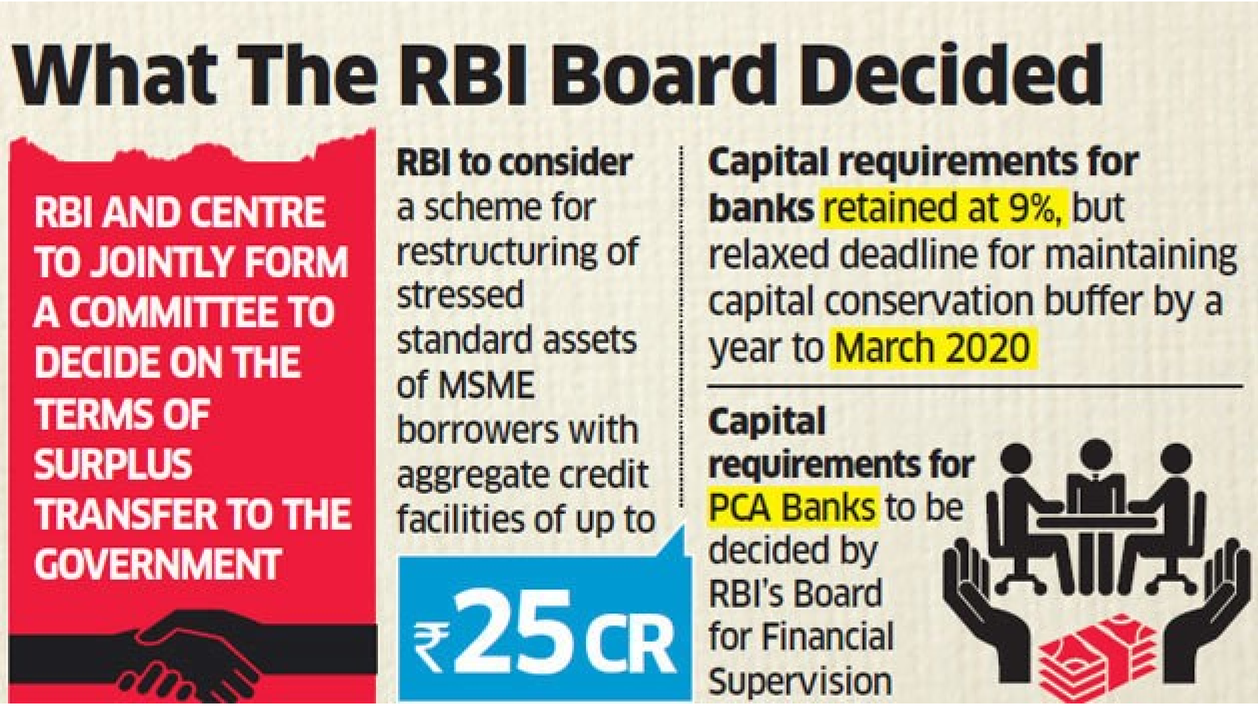

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What is the significance?

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

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Quick Fact

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Prompt Corrective Action (PCA)

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- RBI has initiated prompt corrective action (PCA) in as many as 11 PSBs, which is primarily an action plan for weak and troubled banks.
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- The RBI has put in place some trigger points to assess, monitor and control banks.
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- The trigger points are on the basis of CRAR (a metric to measure balance sheet strength), NPA and ROA (return on assets).
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- Based on each trigger point, the banks have to follow a mandatory action plan. RBI could take discretionary action plans too apart from these.
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- It prohibits them from undertaking fresh business activities such as opening branches, recruiting talent or lending to risky companies.
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