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RBI Board discusses bad loan crisis, liquidity woes

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THE CENTRAL Board of the Reserve Bank of India on Tuesday met to discuss various issues relating to the banking sector, especially the bad loans, liquidity crunch and the prompt corrective action (PCA) framework. However, there are indications that the RBI, which is against diluting the PCA framework, is unlikely to budge from its stand despite strong lobbying from various quarters.

"Various issues were discussed but no specific direction has been issued. The money market conditions also came up for discussion," said a source. RBI Governor Urjit Patel, four Deputy Governors, Economic Affairs Secretary SC Garg and Financial Services Secretary Rajiv Kumar attended the meeting. The board discussed the prompt corrective action framework under which as many as 11 public sector banks are placed now.

"The board can give directions. Minute details are not discussed in the board meetings," said an RBI source.

The meeting also discussed the liquidity crisis faced by non-banking finance companies and housing finance firms following the crisis at project financier IL&FS group, which was taken over by the government on October 1 following a string of payment defaults. The two new members — S Gurumurthy and SK Marathe — who were inducted in August also attended the meeting.

The meeting comes within a week of the central bank making public its dissent note to the government on the question of a separate regulator for payments system. On October 19, the Reserve Bank had made public a strongly-worded dissent note on certain recommendations of a government panel on changes to payment and settlement laws and said the regulation of payments system should remain with the central bank.

Reserve Bank of India Deputy Governor Viral Acharya had recently argued for continuing with the regulator's prompt corrective action framework, which has evoked criticism from many quarters including the government in the recent past. "It is important that the PCA framework to deal with financially weak banks is persisted with," Acharya said. "Any slackening of the approach in the midst of required course action is an all too familiar and ultimately harmful habit that we must eschew," he said while addressing a function at IIT Mumbai.

According to Acharya, without the PCA imposition, some banks would have incurred even higher losses and required even more of taxpayer money for recapitalisation. "Imposition of PCA can thus be seen as first, stabilising the banks at risk, and then, undertaking the deeper bank reforms needed for long-term viability of the business model of these banks," he said. As many as 11 public sector banks are under the PCA framework of the RBI with curbs on lending and expansion.