

Breather for banks as Basel III deferred

In a major relief to public sector lenders, the Reserve Bank of India has extended the deadline for implementation of [Basel III norms](#) by one year to March 2019.

The norms prescribe capital requirements for lenders and banks, which have been scrambling to raise thousands of crores in FY15 to be compliant.

"Of late, industry-wide concerns have been expressed over the potential stresses on the asset quality and consequential impact on the performance/profitability of the banks," the RBI said. "This will also align with implementation of Basel III in India closer to the internationally agreed date of January 1, 2019," it said.

Brokers said that the move would be a positive for bank stocks, which incidentally witnessed a rally on Thursday after Goldman Sachs upgraded its rating on State Bank of India, Punjab National Bank and Bank of Baroda.

Last year, Standard & Poor's had forecast that Indian [banks](#) would need Rs 2.6 lakh crore by March 2018 to meet Basel III norms. The report also said that banks would need Rs 69,100 crore to meet RBI's common equity requirement. The extension of deadline provides banks immediate relief as the RBI has provided a transition timeline, which has also been relaxed.

"There is no dilution of the spirit of Basel III, but the decision to defer implementation would remove the immediate pressure on banks to raise significant amount of hybrid capital in FY15 and to raise equity in FY16," said Ananda Bhoumik, senior director, India Ratings & Research.

Besides needing capital to meet Basel III norms, banks also require funds to provide for rising bad loans. Earlier this month, Dena Bank raised funds by issuing shares to [LIC](#) and [GIC](#). The government, in its interim Budget, had also set aside funds for recapitalization of banks. "We do hope that the Rs 11,200-crore capital infusion into public sector banks budgeted for FY15 will be brought in by the government as this would lead to easing of pressure in subsequent years," said Bhoumik.

Banks that fall short of RBI's capital requirement face restrictions in doing business and the Basel III extension gives them more headroom. But the relaxation in norms will not improve their credit rating.

(Times of India)