RBI needs to align capital adequacy norms with Basel III norms

The government is of the view that the Reserve Bank should resort to Basel III norms for capital adequacy in banks rather than the present stricter guidelines which restrict the lending capacity of lenders, sources said.

Currently, the RBI applies stricter norms and not those specified under Basel III for capital adequacy, leading banks to set aside higher capital for loans.

The government has been in favour of alignment of the capital adequacy norms with Basel III norms, sources said, adding this issue may come up for discussion in the upcoming board meeting on November 19.

This assumes significance amidst growing tensions between the RBI and the government, with the Finance Ministry initiating discussion under the never-used-before Section 7 of the RBI Act which empowers the government to issue directions to the RBI Governor.

RBI Deputy Governor Viral Acharya had in a speech last month talked about the independence of the central bank, arguing that any compromise could be "potentially catastrophic" for the economy.

According to the Basel Committee on Banking Supervision (BCBS) report, core capital requirement for banks as prescribed by the RBI is 1 per cent higher than what Basel III norms recommend.

Indian banks as per RBI direction are required to maintain 5.5 per cent Common Equity Tier 1 (CET 1) as against 4.5 per cent required under the Basel III framework.

This higher capital norms translate into additional capital requirement, restricting lending potential and income generation, the BCBS report released in 2015 said.

"Several aspects of the Indian framework are more conservative than the Basel framework. This includes higher minimum capital requirements and risk weightings for certain types of exposures as well as higher minimum capital ratios. The RBI also applies certain restrictions to banking activities through its prudential framework," it said.

The RBI has fixed March 2019 as the deadline to meet capital requirements under the Basel III norms for banks.

As per the report, while the Basel framework requires the application of capital standards to all internationally active banks, these have been made applicable in India to all scheduled commercial banks, including banks which are not internationally active.

India has only four internationally active banks, which have more than 10 per cent of their assets in their overseas book.

(Economic Times)