RBI rejects government's proposal to ease PCA norms for banks

The Reserve Bank of India (RBI) has pushed back suggestions by the government nominees at its board meeting on Wednesday to ease the so-called Prompt Corrective Action (PCA) norms for banks. The regulator argued that the move had already improved the financial health of some of the lenders under stress.

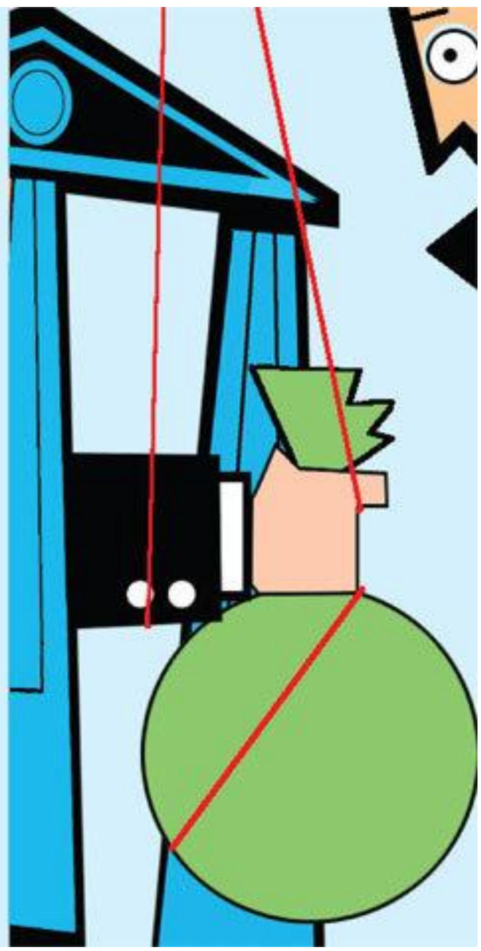
A total of 12 banks, 11 public sector and one from the private sector have been admitted in the RBI's PCA framework under which the financial institutions face restrictions on lending big loans, dividend distribution and branch expansion.

In Wednesday's board meeting RBI officials led by governor Urjit Patel countered government nominees, economic affairs secretary S C Garg and financial services secretary Rajiv Kumar by showing figures on how the health of banks under PCA has improved in the last few years.

Date of PCA invocation

Banks	Date of imposition of PCA
United Bank of India	Feb, 2014
Indian Overseas Bank	Aug, 2015
Dhanlaxmi bank	Nov, 2015
IDBI Bank	May, 2017
UCO Bank	May, 2017
Dena Bank	May, 2017
Central Bank of India	June, 2017
Bank of Maharashtra	June, 2017
Oriental Bank of Comm	Oct, 2017
Corporation Bank	Dec, 2017
Bank of India	Dec, 2017
Allahabad Bank	Jan, 2018

Source: **Stock Exchange Filings**



"PCA banks must be given at least eight to 12 quarters to show an improvement in their performance. If you see the numbers of banks which have been under PCA for long enough, there is already an improvement in their financial parameters. Allowing them to lend recklessly now will undo all the hard work. This point was put forward by the RBI officials to the government nominees on the board," said a person familiar with the deliberations of the central bank's board.

Data accessed by ET shows that all PCA banks have shrunk their losses and reduced their NPAs in the last quarter ended June after a peak in the fiscal year ended March 2018. Kolkata based United Bank of India (UBI) which was the first lender to be put under PCA in February 2014 has seen losses reduce from Rs 1,252 crore in March 2018 to Rs 574 crore in June 2018, while gross NPAs have reduced to Rs 15,169 crore from Rs 16,552 crore in March 2018.

"Making these banks lend as business as usual serves no purpose and only benefits real estate and other risky segments who have seen their funding squeeze. The RBI is very clear that this cannot be done. These banks are were in the ICU and are still recovering which means medication cannot be stopped. This was conveyed to the government nominees on the board unequivocally," said the person cited above.

Economic affairs secretary Garg has been on record asking the RBI to relax these norms in light of the tightening liquidity in the banking system. The government nominee on the RBI board is also understood to have raised this point in the RBI board meeting asking for flexibility on policy decisions because of a crisis like situation faced by NBFCs.

RBI officials however pointed to the handsome rise in credit growth pointing out to the latest data which showed that non-food credit growth, at 14.5% year-on-year in the fortnight to October 12, was the highest in more than four years.

"This recovery in credit has been led by healthy banks which should always be the case. PCA has in fact led to an efficient re-allocation of resources away from the sick lenders and towards the healthy ones. Allowing the non-healthy lenders back into the system will only lead to problems and in no way improve credit growth," said this person cited above.

(Economic Times)