

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4662
ANSWERED ON:23.04.2010
FINANCIAL STABILITY REPORT
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Reserve Bank of India (RBI) in its first Financial Stability Report (FSR) has classified the banking sector as broadly healthy but it has also highlighted some areas of concern like market-to-market exposure and off-balance sheet exposure;
- (b) if so, the salient features of the report;
- (c) whether the Government has taken / proposes to take corrective measures to cover up the areas of concern as highlighted in the FSR; and
- (d) if so, the details thereof?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a): Yes, Sir. The Reserve Bank of India (RBI) in its first Financial Stability Report (FSR) has classified the banking sector as broadly healthy but it has also highlighted some areas of concern like increase in NPAs, off - balance sheet exposure, etc.

(b): Some of the important salient features of the report for the banking sector are as under:

Credit risk - Increase in NPAs and restructuring of accounts;

Interest rate risk due to pressures on yields for banks;

Asset Liability Management would require careful monitoring on an ongoing basis;

Liquidity risk;

Risk arising out of off-balance sheet exposures;

Accounting framework after the convergence of Indian Accounting standards with IFRS could be a major challenge for the Indian banking system;

Unhedged corporate exposures may constitute a potential source of risk to the banking sector.

(c) & (d): RBI has taken, inter-alia, the following corrective and preventive measures to address the areas of concern highlighted in the FSR:

Banks advised to achieve a provisioning coverage ratio of 70% by September 2010;

Provisioning requirement on standard assets in commercial real estate sector increased from 0.4 per cent to 1 per cent;

The valuation methodology prescribed by RBI for banks' investments is conservative, in as much as it requires banks to recognize the losses (depreciation) but ignore the appreciation (gains) in different classifications,

Banks to maintain a high level of SLR at 25 per cent of Net Demand and Time Liabilities (NDTL);

Issue of comprehensive guidelines on derivatives;

Banks advised that foreign currency loans above US \$10 million, or such lower limits, should be extended only on the basis of their Board approved policy with regard to hedging of such loans and Board approved policy should also cover unhedged foreign exchange exposure of all their clients.