GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:7036
ANSWERED ON:08.05.2015
STRENGTHENING BANKING SYSTEM
Singh Shri Pashupati Nath

Will the Minister of FINANCE be pleased to state:

(a) whether there is a need to strengthen financial stability in the banking system ;

(b) if so, the details thereof;

(c) whether the Government are exploring new measures to strengthen financial stability of banks in the country and if so, the details thereof;

(d) whether the Government are likely to require more capital for this purpose; and

(e) if so, the Jetails thereof?

Answer

The Minister of State in the Ministry of Finance (SHRI JAYANTSINHA)

(a) & (b): It is important to strengthen the financial stability and the banking system to ensure that the banking system remains resilient to external shocks. A strong and resilient banking system is the foundation for sustainable economic growth, as banks are at the centre of the credit intermediation process between savers and investors. Moreover, banks provide critical services to consumers, small and medium-sized enterprises, large corporate firms and governments who rely on them to conduct their daily business, both at a domestic and international level.

(c): The Reserve Bank of India (RBI) implemented Basel III capital regulations in India in phases with effect from April 1, 2013 with full implementation by March 2019. Basel III reforms are the response to improve the banking sector`s ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spill over from the financial sector to the real economy. Base! III reforms strengthen the bank-level i.e. micro prudential regulation, with the intention to raise the resilience of individual banking institutions in periods of stress.

RBI has also issued guidelines on `Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards` on June 9, 2014. These guidelines take into account the phase-in arrangement, definition of LCR, high quality liquid assets (HQLAs), liquidity risk monitoring tools and LCR disclosure standards as proposed in the BCBS standards. However, the RBI`s guidelines have taken in account the range of HQLAs available in Indian financial markets and their liquidity vis-a-vis the liquidity instruments prescribed in the BCBS standard.

(d) & (e): The average capital adequacy for Public Sector Banks (PSBs) stands at 11.19% vis-a-vis the Basel III prescription of 9%. As of now, PSBs are adequately capitalised and there is no need for capital in the near term. However, the Government has decided to bring down its holding in these banks to 52% in phased manner based on their future capital requirement and overall performance. : The banks will be incentivised for raising their efficiency parameters which will lead to more capital generation and saving, finally resulting in better capital adequacy. The dilution of holding based on efficiency parameters will ensure that credit needs of banks are taken care of.