GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA

UNSTARRED QUESTION NO. 965.

TO BE ANSWERED ON FRIDAY, FEBRUARY 8, 2019 {MAGHA 19, 1940 (SAKA)}

RBI's Surplus Fund

QUESTION

965. SHRI S.R. VIJAYAKUMAR: SHRI S. RAJENDRAN: KUNWAR HARIBANSH SINGH: SHRI GAJANAN KIRTIKAR: SHRI T. RADHAKRISHNAN: SHRI SUDHEER GUPTA

Will the Minister of FINANCE be pleased to state:

(a) whether the Government had set up a panel for framing guidelines for the transfer of the RBI's surplus funds to the Government;

(b) if so, whether the panel has submitted its report to the Government;

(c) if so, the details thereof and the main recommendations made by the panel;

(d) the action taken/being taken by the Government on the recommendations of the panel; and

(e) the steps taken/being taken by the Government to tackle challenges faced by banking and non-banking sector in the country?

ANSWER

Minister of State in the Ministry of Finance
SHRI P. RADHAKRISHNAN

(a): The Reserve Bank of India (RBI), in consultation with the Government of India, has constituted an Expert Committee under the Chairmanship of Dr. Bimal Jalan to review the extant Economic Capital Framework of the RBI.

(b): The Expert Committee has not submitted its report.

(c) and (d): Questions do not arise.

(e): Government has followed a comprehensive 4R's strategy of recognising Non-Performing Assets (NPAs) transparently, resolving and recovering value from stressed accounts, recapitalising Public Sector Banks (PSBs), and reforms in PSBs and the financial ecosystem for tackling challenges faced by the banking sector, key aspects of which are as under:

(i) Recognition of restructured standard assets has been done as NPAs, beginning with the Asset Quality Review (AQR) in 2015, resulting in a decline in such stressed assets in Scheduled Commercial Banks (SCBs) from the peak of 5.7% in March 2015 to 0.42% as of December 2018 (provisional data).
(ii) Resolution process has been strengthened including by changing the creditor-debtor relationship through the Insolvency and Bankruptcy Code, 2016 and debarment of wilful defaulters and connected persons from the resolution process, which has resulted in record recovery.
(iii) Recapitalisation amounting to Rs. 2,11,000 crore has been initiated in October 2017 to strengthen balance-sheets of PSBs.
(iv) Reforms have been pursued under a comprehensive PSB Reforms Agenda adopted by PSBs.

Government's 4R's strategy has resulted in the following positive outcomes:

(i) Gross NPAs of SCBs peaked in March 2018 and have declined by Rs. 26,901 crore in the first three quarters of the current financial year to Rs. 10,09,286 crore (provisional data).
(ii) Aggregate recovery of Rs. 3,62,120 crore has been made by SCBs since the initiation of recognition in FY 2015-16 including record recovery of Rs. 1,17,443 crore (provisional data) in the first three quarters of the current financial year.
(iii) Non-NPA accounts of SCBs overdue by 31 to 90 days have declined for five successive quarters, reducing from Rs. 2.84 lakh crore as of June 2017 to Rs. 1.10 lakh crore as of September 2018, reducing credit at risk.
(iv) Provision Coverage Ratio of SCBs has risen steadily and appreciably from 49.3% at the time of AQR to 69.2% as of December 2018 (provisional data).

Regarding steps taken to tackle challenges faced by the non-banking sector, RBI has apprised that—

(1) In order to strengthen and ensure ownership-neutral regulations, the regulatory requirements for government-owned Non-Banking Financial Companies(NBFCs) have been aligned with those for other NBFCs in a phased manner;
(2) For effective and timely redressal of grievances of customers of NBFCs, an Ombudsman Scheme for deposit-taking NBFCs has been introduced;
(3) With the objective of bringing outsourced activities of NBFCs within regulatory purview as well as ensuring sound and responsive risk management practices by NBFCs, RBI has issued directions to NBFCs on managing risks arising from outsourced activities associated with financial services provided by them;
(4) In order to promote investments in infrastructure by Systemically Important Core Investment Companies (CIC-ND-SI), CIC-ND-SIs have been permitted to hold Infrastructure Investment Funds (InvIT) units only as sponsors, provided such exposure does not exceed the minimum holding and tenor limits prescribed under Securities and Exchange Board of India (SEBI) regulations for a sponsor;
(5) To provide an impetus to priority sector lending (PSL), NBFCs have been permitted to co-originate priority sector loans with banks to generate synergy arising from the combination of low-cost funds from banks and lower cost of operations of NBFCs;
(6) Asset Reconstruction Companies (ARCs) complying with corporate governance practices have been exempted from the shareholding limit of 26 per cent of post-

converted equity of the borrower company if the extent of shareholding after the conversion of debt to equity does not exceed the permissible foreign direct investment (FDI) limit for the specific sector;

(7) To expand the investor base and to infuse greater depth in the Security Receipt (SR) market, RBI has notified Alternative Investment Funds categories II and III, registered with SEBI, as non-institutional investors.

(8) Guidelines have been issued to ARCs for ‘fit and proper’ aspects of the sponsor of an ARC which include, *inter-alia*, parameters related to integrity, reputation, track record, experience, sources as well as stability of funds, and the ability to access financial markets.

(9) NBFCs recently faced liquidity stress. In order to ameliorate the stress faced, RBI has taken the following steps:

   (a) Open Market Operations were conducted in addition to regular Liquidity Adjustment Facility (LAF) auctions;

   (b) RBI permitted banks to reckon Government securities held by them up to an amount equal to their incremental outstanding credit to NBFCs and Housing Finance Companies (HFCs), over and above the amount of credit to NBFCs and HFCs outstanding on their books as on October 19, 2018, as Level 1 High Quality Liquidity Assets (HQLA) under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the mandatory SLR requirement, which is in addition to the existing FALLCR of 13 per cent of Net Demand and Time Liabilities (NDTL) and limited to 0.5 per cent of the bank's NDTL;the said additional FALLCR is available up to March 31, 2019;

   (c) The single borrower exposure limit for loans to NBFCs which do not finance infrastructure, stands increased from 10 percent to 15 percent of capital funds of the lender, up to March 31, 2019;

   (d) Banks were permitted on November 2, 2018 to provide partial credit enhancement (PCE) within aggregate PCE exposure limit of 20% for bonds of minimum tenor of 3 years issued by NBFC-ND-SIs registered with RBI and Housing Finance Companies (HFCs) registered with the National Housing Bank (NHB), within one percent of capital funds and with regard to extant single/group borrower exposure limits for refinancing the existing debt;

   (e) RBI reduced the minimum average maturity requirement for External Commercial Borrowings in the infrastructure space raised by eligible borrowers from 5 years to 3 years, with effect from November 6, 2018; and

   (f) To encourage NBFCs to securitise their assets and ease the liquidity situation, guidelines have been issued to NBFCs providing them dispensation for a period of six months from extant minimum holding period requirements of one year to receipt of repayment of six monthly instalments or two quarterly instalments (as applicable) for loans with original maturity of above 5 years, subject to minimum retention requirement of 20% of the book value of the loans being securitised or 20% of the cash flows from the assets assigned.

Further, refinance limit for HFCs has been enhanced from Rs. 24,000 crore to Rs. 50,000 crore by the NHB.

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