

LOWER LEVERAGE RATIO MAY IMPROVE LENDING ACTIVITY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The Reserve Bank of India's decision to bring leverage ratio for banks in line with Basel-III standards will improve the lendable resources, bankers said.

In the second bi-monthly policy review, the central bank has mandated leverage ratio of 3.5% for all the banks except for the domestic systemically important banks (D-SIBs), which will have a 4% ratio. "Keeping in mind financial stability and with a view to moving further towards harmonisation with Basel III standards, it has been decided that the minimum LR should be 4% for domestic systemically important banks (DSIBs) and 3.5% for other banks," the RBI said, adding instructions in this regard would be issued before the end of June 2019. The ratio was indicated to be 4.5% earlier.

"On the regulatory front, the decision to lower the leverage ratio will augment the lendable resources of the banks," Rajnish Kumar, chairman, SBI said.

The leverage ratio was introduced for banks post the financial crisis of 2008, as one of the underlying features of the crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system.

In many cases, banks built up excessive leverage while still showing strong risk-based capital ratios.

"The easing of the leverage ratio requirement will boost bank lending and should serve as the much needed countercyclical stimulus," Zarin Daruwala, CEO, Standard Chartered Bank, India, said.

Working group

The RBI has also set up an internal working group to review liquidity management framework with a view to simplify the current framework. The RBI said the objective was also to clearly communicate the objectives, quantitative measures and toolkit of liquidity management by the RBI.

"Liquidity is one of the areas where banks pay a lot of attention. Setting up a committee to improve the liquidity management process is indeed a positive signal and aligning the leverage ratio with Basel standards would also help banks considerably," said Sunil Mehta, MD and CEO, Punjab National Bank and chairman, Indian Banks' Association.

The working group is expected to submit its report by mid-July 2019.

Setting up a committee to improve liquidity management is a positive signal
Sunil mehta, MD & CEO, PNB

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