

RBI plans regulations to bolster financial sector

Measures to be more principle-based rather than entity-oriented

MANOJIT SAHA
Mumbai, 30 May

From adoption of the expected credit loss (ECL) model for asset classification to a comprehensive review of loan rates, the Reserve Bank of India (RBI) will be announcing far-reaching regulatory measures in 2024-25 (FY25) for the financial sector with a view to making regulations “more principle-based, actively-oriented and proportionate to the scale of systemic risk, rather than entity-oriented”.

“Several regulatory and supervisory measures will be undertaken in 2024-25 to further strengthen financial intermediaries,” the RBI said in its annual report for 2023-24, released on Thursday.

The central bank will comprehensively review the regulations related to income recognition, asset classification, and provisioning norms for regulated entities, as well as the framework for stressed asset resolution across regulated entities (REs).

The RBI said there would be a harmonised set of prudential guidelines for all REs undertaking project finance. The regulator has already announced a draft paper on project finance in which it has proposed to increase standard asset provisioning for under-construction projects to 5 per cent from the current 0.04 per cent, attracting huge resistance from banks.

In January last year, draft norms

ANNUAL REPORT

Steps in the offing in FY25

- Expected credit loss model
- Review of income recognition, asset classification, and provisioning norms
- Harmonisation of project finance norms
- Comprehensive review of interest rate framework
- Securitisation of Stressed Assets Framework
- To address climate change challenges for financial system
- Widening scope of central bank digital currency
- Review of priority sector lending norms



‘Climate shocks’ add inflation uncertainty

The RBI has identified “climate shocks” as a risk to food and overall inflation outlook while commenting that the outlook for the country’s economic growth remains bright. 4 ▶

on the ECL model were published by the RBI. At present, banks follow an incurred credit loss approach for bad loans. Guidelines on ECL norms are

also expected this year. These norms are likely to increase provisioning requirements for banks, albeit in a phased manner.

The RBI will also undertake “a comprehensive review of the extant regulatory instructions on interest rates on advances across REs”, the annual report said.

Regulations are also likely on the issuance of the Securitisation of Stressed Assets Framework in FY25, besides on climate finance.

“Efforts [will be made] towards enhancing awareness, building capacity, and fostering collaboration among stakeholders to effectively address the multifaceted challenges of climate change for the financial system,” the report said.

The RBI will also expand the scope for central bank digital currency – the pilot for which was started in 2022.

“The Reserve Bank would expand the scope of ongoing pilots in e-R (retail) and e-W (wholesale) in 2024-25 by incorporating various use cases as well as new designs, technological considerations and more participants, besides launching a full-scale public tech platform with more financial institutions/data service providers and product offerings,” it said.

During FY25, the RBI will also review the priority sector lending guidelines and work towards formulation of the next iteration of the National Strategy for Financial Inclusion (NSFI) for the period 2025-30.

Turn to Page 10 ▶

PAGE 4

■ **RBI balancesheet grew 11% to ₹70trn in FY24**

The size of the Reserve Bank of India’s (RBI’s) balance sheet increased by 11.08 per cent year-on-year (Y-o-Y) to ₹70.47 trillion as of March 31, 2024 (FY24), driven by its liquidity and foreign exchange (forex) operations.

UPI MOST PREFERRED WAY FOR DIGITAL TRANSACTIONS

RBI LIQUIDITY OPS TO MATCH MONETARY POLICY STANCE

▶ FROM PAGE 1

RBI plans regulations to bolster financial sector

For urban cooperative banks, a revised supervisory action framework (SAF) under the nomenclature PCA [prompt corrective action] framework is under consideration. The regulator said the aim was to further streamline and facilitate timely supervisory intervention to enable UCBs to initiate and implement remedial measures to restore their financial health.

Commenting on the supervisory initiatives, the report said these initiatives taken by RBI were aimed at identifying risks and vulnerabilities early, increasing the focus on root cause of vulnerabilities, and harmonising the supervisory rigour across various segments of the financial system.

“Frequent and wider interactions with SEs [supervised entities] would remain a critical tool to enhance the effectiveness of supervisory intervention,” the report said, adding that strengthening governance and assurance functions of the SEs would continue to be a priority for the regulator.