

Finance Minister's Meeting with Chief Executives of Public Sector Banks



T.S. Narayanasami, IBA chairman welcomes P. Chidambaram, finance minister.

Indian Banks' Association (IBA) coordinated a meeting of the finance minister with the chief executives of public sector banks (PSB) on November 4, 2008. The meeting besides being a periodic performance review exercise was also significant since the focus of discussions was on the impact of the meltdown of global financial systems on the Indian economy and efforts needed to minimise its adverse effects.

The global turmoil has had an impact on exports, capital inflows, capital market and the exchange rate in the country. The situation demands all stakeholders to act in coordination and as a closely knit team without worrying about the impact of the measures on working of individual players. The finance minister mentioned that the Government of India is working in tandem with the Reserve Bank of India (RBI) to ensure that timely monetary and fiscal measures are initiated so that the growth momentum is not lost. The government does not want production losses to trigger layoffs and job losses.

Referring to the series of measures taken by the RBI for injecting liquidity into the system, the finance minister stressed that for these measures to be visible on the real economy, delivery of credit should take place and it should be at an affordable price. With other sources of finance

drying up, the industry and the services sector look up to the banking system for meeting their funding requirements.

The finance minister requested banks to consider applications from corporate customers for rupee credit lines to facilitate redemption of Self Certified Corporate Bonds (SCCB). The finance minister appreciated the initiatives taken by banks under the auspices of IBA to support Mutual Funds (MF) and Non-Banking Financial Companies (NBFC) in meeting their liquidity needs. He appealed to banks to tap special 14 days repo window from RBI and meet liquidity needs of MFs and NBFCs on reasonable terms. The finance minister indicated that the government would be willing to recapitalise PSBs facing difficulty in meeting the norm of 12 percent capital adequacy necessary to move on to Basel II. While some banks have been identified for capital infusion, he requested all PSBs to project their capital requirements for the next 3 years and approach the ministry for support required, if any, to ensure capital adequacy ratio of 12 percent.

Banks submitted that a rollback of higher risk weight stipulated for real-estate funding would help them in supporting the construction industry, which was facing severe liquidity crunch.