‘RBI to expand bank credit to productive sectors’

CUSHION FOR LENDERS. Basel III guidelines seek to raise the quality of capital to ensure banks are better able to absorb losses

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The Reserve Bank of India is examining measures to expand bank credit towards productive sectors and reduce cost of intermediation even as it intends to implement Basel III guidelines for banks for market, credit and operational risk from April 1, 2027, according to the Governor Sanjay Malhotra.

Accordingly, credit risk and ECL (expected credit loss)-related draft guidelines will be issued soon. The Forms of Business circular will also be finalised, Malhotra said at the FICCI-IBA conference.

The development comes at a time when non-food bank credit growth has slowed. As per RBI’s data on sectoral deployment of bank credit, non-food bank credit growth slowed to 10.2 per cent year-on-year in June 2025, compared wtih 13.8 per cent y-o-y.

The slowdown in credit growth is across all four credit segments — agriculture and allied activities, industry, services and personal loans. ECL provisioning will be an outcome of banks’ own historical data on probability of default (PD) and loss given default (LGD), according to rating agency ICRA.

QUALITY OF CAPITAL

Basel III guidelines seek to raise the quality and level of capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis.

They increase the risk coverage of the capital framework, introduce leverage ratio to serve as a backstop to the risk-based capital measure, raise the standards for the supervisory review process and public disclosures.

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> **SANJAY MALHOTRA**
> Governor, RBI

INVESTMENT PUSH

The Governor, in his inaugural address, observed that the RBI looks forward to working with regulated entities to improve efficiency and effectiveness of financial intermediation.

On the demand side, he urged the industry to invest and champion the entrepreneurial spirit that defines India.

“At a time, when balance sheet of banks and corporates are at their best, they should come together and drive the animal spirits to create an investment cycle,” said Malhotra.

He said that RBI is trying to rationalise the macro policies that need to be approved by the Boards of the regulated entities, and leave the procedural and routine matters with the management. Referring to proposed regulations, Malhotra said the RBI is reviewing the Internal Ombudsman framework at the level of REs (regulated entities — like banks and NBFCs) to strengthen it and ensure that complaints get resolved effectively within the institution itself.

The Central bank is also reviewing the RB-IOS (Integrated Ombudsman Scheme) to enhance its effectiveness and transparency as an alternative grievance redressal mechanism.

ENHANCE EFFICIENCY

Further, RBI intends to enhance the consistency and adequacy of compensation awarded under the Ombudsman framework. It also plans to expand the set of services, non-timely provision of which may be liable for payment of penalty.

Emphasising that the consumer’s trust is vital not only for the RE but also for the stability and resilience of the banking system, the Governor called for the need to build and maintain trust, as it is essential that REs put in place a robust, effective and affordable mechanism for grievance redressal.

“They should periodically assess the types of complaints, conduct a root cause analysis and implement systemic corrective measures in product design, processes, and employee conduct. It is further suggested that customer satisfaction-related KPIs (key performance indicators) are included in appraisal and variable pay of key functionaries,” he said.