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## RBI releases Draft Report on Implementation of Countercyclical Capital Buffer Framework in India

The Reserve Bank of India (RBI) today placed on its website [the Draft Report](#) of the Internal Working Group (IWG) on Implementation of Countercyclical Capital Buffer (CCCB) in India (Chairperson: Shri B. Mahapatra). Comments on the Report may please be [emailed](#) or forwarded by December 31, 2013 to the Principal Chief General Manager, Department of Banking Operations and Development, Reserve Bank of India, Central Office, Mumbai-400 001.

The IWG approached the implementation framework keeping two main issues in mind. First, the structural changes that the Indian economy has been going through should be considered in calibrating the indicator/s for CCCB imposition; secondly, being an emerging economy, the maximum potential growth may not have been achieved by it so far and hence CCCB imposition should not stifle the possibility of the same.

The key recommendations of the IWG are:

- While the credit-to-GDP gap shall be used for empirical analysis to facilitate CCCB decision, it may not be the only reference point in the CCCB framework for banks in India and the credit-to-GDP gap may be used in conjunction with other indicators like Gross Non-Performing Assets (GNPA) growth for CCCB decisions in India.
- The CCCB decision may be pre-announced with a lead time of 4-quarters.
- The lower threshold (or L) of the CCCB when the buffer is activated may be set at 3 percentage points of the credit-to-GDP gap, provided its relationship with GNPA remains significant and the upper threshold (or H) may be kept at 15 percentage points of credit-to-GDP gap.
- The CCCB shall increase linearly from 0 to 2.5 per cent of the risk weighted assets (RWA) of the bank based on the position of gap between 3 percentage points and 15 percentage points. However, if the gap exceeds 15 percentage points, the buffer shall remain at 2.5 per cent of the RWA. If the gap is below 3 percentage points then there will not be any CCCB requirement.
- The supplementary indicators shall include incremental C-D ratio for a moving period of three-years (along with its correlation with credit-to-GDP ratio gap and GNPA growth), Industry Outlook (IO) assessment index (along with its correlation with GNPA growth) and interest coverage ratio (along with its correlation with credit-to-GDP gap). In due course, indices like House Price Index / RESIDEX and Credit Condition Survey may also form a part of the supplementary indicators for CCCB decision.

- The Reserve Bank of India may apply discretion in terms of use of indicators while activating or adjusting the buffer.
- The CCCB framework in India may be operated in conjunction with sectoral approach that has been successfully used in India over the period of time.
- The same set of indicators that are used for activating CCCB may be used to arrive at the decision for the release phase of the CCCB. However, instead of hard rules-based approach, flexibility in terms of use of judgement and discretion may be provided to the Reserve Bank of India for operating the release phase of CCCB. Further, the entire CCCB may be released promptly at a single point in time.
- For all banks operating in India, CCCB shall be maintained on solo basis as well as on consolidated basis in India.
- The indicators and thresholds used for CCCB decisions may be subject to continuous research and empirical testing for their usefulness and new indicators may be explored to support CCCB decisions.

### **Background**

It may be recalled that in the aftermath of the financial crisis in 2008, the Group of Central Bank Governors and Heads of Supervision (GHOS) showed commitment to introducing Countercyclical Capital Buffer Framework vide its press release dated September 7, 2009. Subsequently, in July 2010, the Basel Committee issued a consultative Document on *Countercyclical Capital Buffer* titled '*Guidance for national authorities operating countercyclical capital buffer*'.

Against this backdrop, the Reserve Bank of India (RBI) set up an Internal Working Group (IWG) under the Chairmanship of Shri B. Mahapatra, Executive Director, RBI, to create a CCCB framework for banks in India. Further, in the second quarter review of the Monetary Policy Statement of 2013-14, it was stated that the draft report of the IWG would be placed on RBI website by November 30, 2013.

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**Alpana Killawala**  
Principal Chief General Manager