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NPA ratios improve, but are still high: Das

Public sector banks need governance reforms: RBI report

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The gross non-performing asset ratio (GNPA) of commercial banks improved to 10.8% in September from 11.5% in March and is set to improve further to 10.3%, the Reserve Bank of India (RBI) said in its Financial Stability Report on Monday.

This was the first half yearly decline in the ratio since September 2015.

"After a prolonged period of stress, the banking sector appears to be on course to recovery as the load of impaired assets recedes; the first half-yearly decline in gross NPA ratio since September 2015 and improving provision coverage ratio, being positive signals," RBI Governor Shaktikanta Das wrote in the foreword to the report.

"Stress test results suggest further improvement in NPA ratio, though its current level remains still high for comfort," Mr. Das said.

The net NPA ratio also fell to 5.3% in September 2018 as against 6.2% in March 2018, RBI said in the report.

GNPAs of state-run banks improved to 14.8% in September 2018 from 15.2% in March 2018, while private sector banks' gross NPAs fell to 3.8% in September 2018 from 4% in March 2018.

Under the baseline scenario, the GNPA ratio of all banks may come down to 10.3% by March 2019 from 10.8% in September 2018, the report said. The ratio of restructured standard advances steadily declined in September 2018 to 0.5% following the withdrawal of various restructuring schemes in February 2018.

While asset quality improved, loan loss ratio of banks also increased to 51%.

The capital adequacy ratio (CAR) of state-run banks however declined from 11.7% to 11.3%, the report said.

PCA framework helps

The restrictions imposed on 11 public sector banks under the prompt corrective action (PCA) framework has helped in reducing contagion losses on the banking system in case these lenders fail, the report said.

While Mr. Das noted that the banking sector is on "course to recovery," he added public sector banks need governance reforms.

The Governor acknowledged that some of the cases referred for resolution under the bankruptcy framework have lagged time-lines, but added that the Insolvency and Bankruptcy Code (IBC) will strengthen credit discipline.

"A time-bound resolution of impaired assets will go a long way in unclogging the credit pipeline thus improving the allocative efficiency in the economy," he said.

Mr. Das said the shift in credit intermediation from banks to non-banks has given the corporate sector a diverse choice of finance instruments but added non banking finance companies need to be more prudent on risk-taking. He also underlined the need to rebalance excessive credit growth, especially the one funded by short-term liabilities.

The high credit growth is "not stability enhancing," Mr. Das said. "The framework for oversight of financial conglomerates also requires closer attention."

On economic growth, Mr. Das said the slowdown in GDP growth to 7.1% is slower than expected, but pointed out to an uptick in gross fixed capital formation along with the dip in crude oil prices as a positive for sustained growth going forward.

Globally, the threat of trade war, which would have weakened growth prospects, has softened, he said.

Cautious optimism

- After prolonged period of stress, banking sector appears to be on course to recovery as load of impaired assets recedes
- Stress test results suggest further improvement in NPA ratio, though present level is still high for comfort
- Need to rebalance excessive credit growth, especially those funded by short-term liabilities
- Uptick in gross fixed capital formation along with oil price dip is positive for sustained growth
- First half-yearly decline in GNPA seen since September 2015
- GNPAs of public sector lenders improved to 14.8% in September 2018 from 15.2% in March 2018