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8 PCA-PSU BANKS TO REMAIN UNDER-CAPITALISED WITHOUT GOVT FUNDS

Non-performing assets stress to decline for first time in 3 yrs: RBI

ENS ECONOMIC BUREAU
MUMBAI, DECEMBER 31

AFTER STRUGGLING with a painful asset quality review and soaring bad loans in the last three years, the banking sector is expected to show an improvement in stressed assets in the new year, the Reserve Bank of India (RBI) has said.

The Financial Stability Report of the RBI, unveiled on Monday, has said the asset quality of banks showed an improvement with the gross non-performing assets (GNPA) ratio of banks declining from 11.5 per cent in March 2018 to 10.8 per cent in September 2018. "Under the baseline scenario, GNPA ratio may decline from 10.8 per cent in September 2018 to 10.3 per cent in March 2019," the report said."

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 2015and improving provision coverage ratio, being positive signals.

Stress test results suggest further improvement in NPA ratio, though its current level remains still high for comfort," RBI Governor Shaktikanta Das said."Notwithstanding the significant costs wrought by the enhanced recognition of asset impairment in public sector banks (PSBs), it appears to have led to a greater discipline in credit assessment, higher sensitivity to market risk and better appreciation of operational risks," Das said in the report.

Credit growth of commercial banks has also improved between March 2018 and September 2018, driven largely by private sector banks (PVBs), it said.

Among the bank groups, GNPA ratio of PSU banks may decline from 14.8 per cent in September 2018 to 14.6 per cent by March 2019 under the baseline scenario, whereas GNPA ratio of private banks may decline from 3.8 per cent to 3.3 per cent in March 2019.

GNPA ratio of foreign banks under baseline scenario might decline from 3.6 per cent to 3.1 per cent in March 2019.The RBI says under the assumed baseline macro scenario, system level CRAR (capital to risk-weighted assets ratio) is projected to come down to 12.9 per cent in March 2019. Further deterioration of CRAR is projected under severe stress scenario.

"As many as eight PSU banks under prompt corrective action framework (PCA PSBs) may have CRAR below the minimum regulatory level of 9 per cent by March 2019 without taking into account any further planned recapitalisation by the government. Together with these, a total of 9 banks may have CRAR below 9 per cent under baseline scenario," it said.

In terms of quality, incremental credit portfolio of PCA-PSBs shows a declining conversion rate to non-performing assets (NPA) in FY 2017-18 compared to FY 2016-17, although the rate still remains significantly large vis-à-vis other financial intermediaries, the RBI FSR said. Further, as many as 14 banks will not be able to maintain their CRAR level at 9 per cent if top 3 group borrowers fail to meet their payment commitments, it said.

According to the FSR, among the broad sectors, the asset quality of industry sector improved in September 2018 as compared to March 2018 whereas that of agriculture and retail sectors deteriorated. "The improvement in asset quality of industry sector was marked by a reduction in fresh slippages in September 2018," it said. The RBI's analysis of the financial network structure for the period September 2017 - September 2018 reveals a shrinking inter-bank market and increasing bank linkages with asset management companies-mutual funds (AMC-MFs) for raising funds and with NBFCs and housing finance companies (HFCs) for lending.

EXPLAINED

E. First half-yearly decline in gross NPA ratio

AS THE load of impaired assets recedes, the visible improvement in the asset quality of banks during the first six months of the current fiscal is projected to extend to the end of the financial year.'

This is significant it marks the first half-yearly decline in gross NPA ratio since September 2015 and comes after a prolonged period of sectoral stress. A greater discipline in credit assessment, higher sensitivity to market risk and better appreciation of operational risks are among the factors that have contributed to the trend.