Financial Stability Report – RBI

Why in news?

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The Reserve Bank of India (RBI) has recently released the Financial Stability Report.

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What does the report reveal?

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- The quality of banks showed an improvement with **the gross non-performing assets (GNPA) ratio** of Scheduled commercial banks declining from 11.5% in March 2018 to 10.8% in September 2018.
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- The GNPA ratio of both public and private sector banks showed a half-yearly decline, for the first time since March 2015.
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- GNPAs of state-run lenders falling to 14.8% in September 2018 from 15.2% in March 2018.
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- GNPAs of Private sector banks falling to 3.8% in September 2018 from 4% in March 2018.
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- The ratio of restructured standard advances (RSAs) steadily declined to 0.5%in September 2018 following the withdrawal of various restructuring schemes in February 2018.
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- This suggested increasing shift of the restructured advances back to NPA category.
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- As of September 2018, provision coverage ratio (PCR) of all banks was higher as compared to March 2018, with improvements noticed for both state-run banks and private sector banks.
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- Under-provisioning, banks have to set aside funds to a prescribed percentage of their bad assets.

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- The provisioning coverage ratio is the percentage of bad assets that the bank has to provide for (keep the money) from their own funds(profit).
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- A rise in PCR reveals that banks have increased its cushion to absorb losses and has also made adequate provisions for NPAs.
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- Also, the capital to risk-weighted assets ratio (CRAR) of banks declined marginally from 13.8% in March 2018 to 13.7% in September 2018.
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- The CRAR is the capital needed for a bank measured in terms of the riskiness of the assets (mostly loans) disbursed by the banks.
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- Higher the assets higher should be the capital of the bank.
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What is the sector-wise analysis of the report?

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- The banks were finally witnessing reverse trend in stressed asset exposures in sectors like industry and services.
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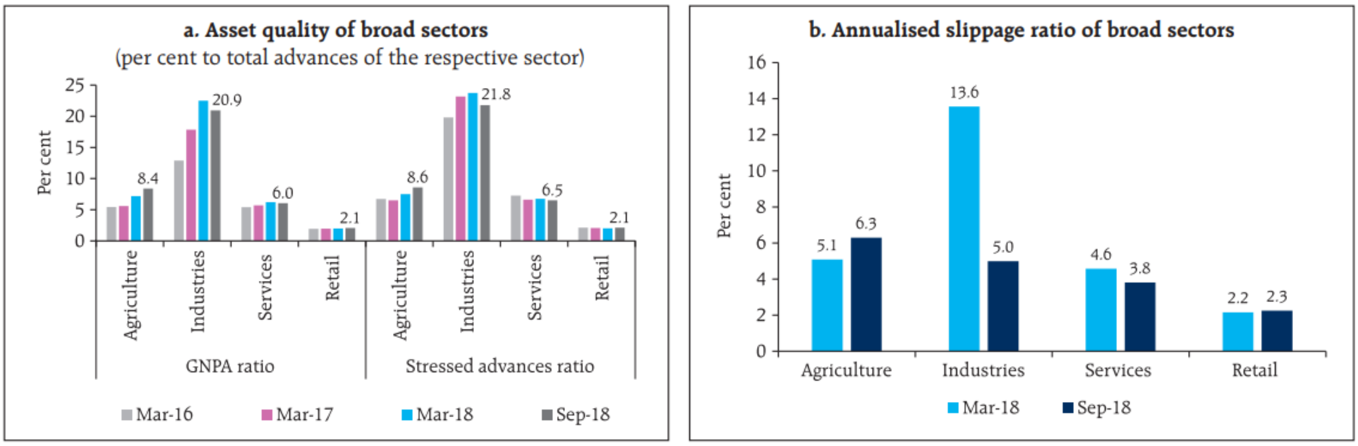

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- The gross NPA ratio of banks in industry sector has come down to 20.9% in September 2018 quarter.
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- Also, the annualised slippage ratio decelerated massively to 5% as against 13.6% in March 2018.

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- Slippage ratio is defined as the ratio of increase in NPAs during the year with respect to standard advances at the beginning of the year.
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- The declining trend was also witnessed in the service sector, where gross NPA ratio came down to 2.1% along with stressed asset ratio at 6.5% in September 2018.
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- On the other hand, this was not the case for agriculture and retail sector.
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- Among the sub-sectors within an industry, stressed advances ratios of 'mining', 'food processing' and 'construction' sectors have increased in September 2018 as compared to March 2018.
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- Also, a share of large borrowers in SCBs' total loan portfolios and their share in GNPAs was at 54.6%and 83.4%respectively at the end of September 2018.
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- Top 100 large borrowers accounted for 16.0%of gross advances and 21.2%of GNPAs of SCBs.
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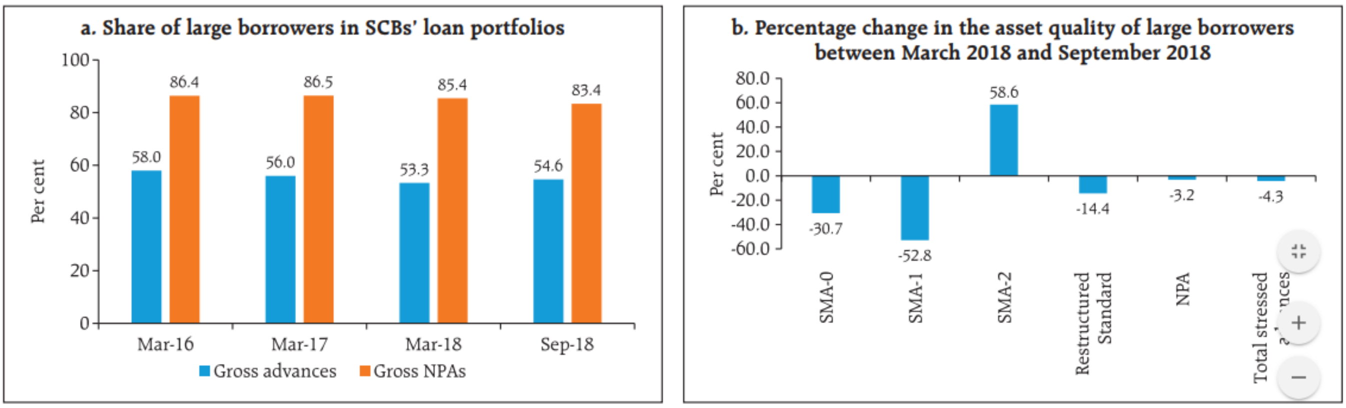

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- However, in terms of percentage change in the asset quality of large borrowers, the proportion of stressed amount has come down from 30.4%in March 2018 to 25.4%in September 2018.
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What are the concerns?

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- The RBI's Prompt Corrective Action (PCA) framework has significantly helped in lowering risk to the banking system.
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- However, State-owned banks continue to have higher levels of bad loans than their private sector peers.
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- One reason is that PSBs have a disproportionately higher share of bad loans from among large borrowers.
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- Data on banking frauds are also a cause for concern.
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- Close to 95% of the frauds reported in the six months ended September were credit-related, with PSBs again bearing the brunt of mala fide intent on the part of borrowers.
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- The RBI's report has also urged to tighten the oversight framework for financial conglomerates in the wake of the IL&FS meltdown.
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- Thus, despite the decline in banks' gross NPA ratio, regulatory vigil should be increased further and should not ease at any cost.
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Source: The Hindu, Economic Times

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Stressed Assets

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- A loan whose interest and/or instalment of principal have remained 'overdue '(not paid) for a period of 90 days is considered as NPA.
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- Restructured asset or loan are that assets which got an extended repayment period, reduced interest rate, converting a part of the loan into equity, providing additional financing, or some combination of these measures.
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- Hence, under restructuring, a bad loan is modified as a new loan.
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- A restructured loan also indicates bad asset quality of banks.
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- This is because a restructured loan was a past NPA or it has been modified into a new loan.
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- Written off assets are those amount when the bank or lender doesn’t count the money borrower owes to it.
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- Thus, Stressed assets = NPAs + Restructured loans + Written off assets.
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