Financial Stability Report 2017

Why in news?

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Financial stability report (FSR) of the RBI has been recently released.

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What is FSR?

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- Financial Stability Report (FSR) is a biannual publication which reflects the overall assessment on the stability of India’s financial system.
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- It will discuss India’s resilience to risks emanating from global and domestic factors and issues relating to development and regulation of the financial sector.
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What are the factors which makes Indian economy unstable?

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- Public sector banks, which account for almost 70 per cent share in the country, even private banks are experiencing much turbulence on bad loans.
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- Group of public sector banks are also highly vulnerable to further declines in asset quality and higher provisioning needs.
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- Thus balance sheets of both public sector banks and quite a few large corporate houses are in terrible shape and were seen as a major obstacle to investment and reviving growth.
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What are the recent findings of the report?

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- Government hastaken steps to recapitalise public sector banks to enable them to lend afresh and institutionalise a system to reduce stressed loans through IBC.
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- FSR has raised pertinent questions about such moves having a sustainable solution.
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- Credit growth of scheduled commercial banks (SCBs) has improved but the banking stability indicator (BSI) suggests that the asset quality in the Indian banking sector is worsening.
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- Report also points out there is a worrisome development in credit quality of large borrowers, who have aggregate exposure of Rs 5 crore or more.
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- This essentially means that stressed companies are still not able to generate enough revenue to honour loan payments.
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- FSR concludes that the gross non-performing assets GNPA ratio may increase to 10.8 per cent by March 2018 and further to 11.1 per cent by September 2018.
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Source: Business Standard

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Quick Fact

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BSI

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- It is an asset quality indicator for banks.

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- It is the expected number of banks that could become distressed given that at least one bank has become distressed.
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- If BSI is higher more banks are expected to become distressed if one bank in the system is distressed.
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