Financial Stability Report - RBI

Why in news?

\n\n

Reserve Bank of India has recently released the financial stability report.

\n\n

What are the highlights?

\n\n

\n
- **NPA** - RBI report warns that the gross non-performing assets (GNPAs) could rise.
\n
- The *GNPAs* of scheduled commercial banks could rise from 11.6% in March 2018 to 12.2% in March 2019.
\n
- This would be the highest level of bad debt in almost two decades.
\n
- It is more worrying for GNPAs of banks under *prompt corrective action framework*.
\n
- It is expected to rise to 22.3% in March 2019, from 21% in March 2018.
\n
- **Capital** - GNPAs will increase the size of provisioning for losses and affect banks' capital position.
\n
- The capital to risk-weighted assets ratio of the banking system as a whole is expected to drop.
\n
- It could come down from 13.5% in March 2018 to 12.8% in March 2019.
\n
- **Bank frauds** - RBI notes that more than 85% of frauds could be linked to PSBs.
\n
- But, their share of overall credit is only about 65%.
\n
- The PSBs are far more prone to fraud than the private banks.

\n
- This is significant in light of the recent Punjab National Bank scam.
\n
- It is possibly due to the corporate governance issues in public sector banks.
\n
- This also largely contributed to the weak lending practices, the core of the NPA crisis.
\n

\n\n

What are the concerns?

\n\n

\n
- **Banks** - NPA crisis has affected the banking system and impeded credit growth in the economy.
\n
- It was expected to be reaching to the lowest levels.
\n
- But RBI report comes as a caution to the health of the banks and the economy.
\n
- **Economy** - Economy has registered a healthy growth rate of 7.7% in the recent quarter.
\n
- The deteriorating health of banks is in contrast to the recovering economy.
\n
- **External risks** - The RBI, however, has warned about the rising external risks.
\n
- It poses a significant threat to the economy and to the banks.
\n
- Credit has already started to flow out of emerging markets such as India.
\n
- This is due to the\n
    \n
    i. tightening of monetary policy by the US Federal Reserve
    \n
    ii. increased borrowing by the U.S. government
    \n
\n
\n
- **Prices** - The increase in commodity prices is another risk on the horizon.
\n
- This could pose a significant threat to the rupee and the fiscal and current

account deficits.
\n
- All these factors could well combine to increase the risk of an economic slowdown.
\n
- It could, in turn, exert pressure on the entire banking system.
\n

\n\n

What is the way forward?

\n\n

\n
- RBI expects improvement in the capital position of banks with
\n

\n\n

\n
i. the government’s recapitalisation plan for banks
\n
ii. the implementation of the Insolvency and Bankruptcy Code
\n

\n\n

\n
- But beyond these, government should consider changes to aspects of operational autonomy and the ownership of PSBs.
\n
- The governance reforms at PSBs, if implemented, can help improve their financial performance.
\n
- It could also reduce their operational risks.
\n

\n\n

\n\n

Source: The Hindu

\n\n

\n\n

Quick Facts

\n\n

Gross and Net NPAs

\n\n

\n
- Gross non-performing assets (GNPAs) refer to the sum of all the loans that have been defaulted by the borrowers within the provided period of 90 days.
\n
- The net non-performing assets are the amount that results after deducting provision for unpaid debts from gross NPA.
\n
- The GNPAs does not amount to the actual loss of the organization.
\n
- But net non-performing assets amount to the actual loss, as the provision for unpaid loans has already been deducted.
\n

\n\n

Prompt Corrective Action (PCA)

\n\n

\n
- PCA is primarily to take appropriate corrective action on weak and troubled banks.
\n
- The RBI has put in place some trigger points to assess, monitor and control banks.
\n
- The trigger points are on the basis of CRAR (a metric to measure balance sheet strength), NPA and ROA (return on assets).
\n
- Based on each trigger point, the banks have to follow a mandatory action plan.
\n
- It prohibits them from undertaking fresh business activities such as opening branches, recruiting talent or lending to risky companies.
\n
- RBI could take discretionary action plans too apart from these.
\n

\n



SHANKAR
IAS PARLIAMENT
Information is Empowering