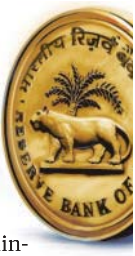
RBI'S FINANCIAL STABILITY REPORT

Banks to remain well-capitalised even under stress

Bad loans from agri remain high at 7%

MANOJIT SAHA
Mumbai, 28 December



The Indian banking system is staying resilient, with net non-performing assets (NNPAs) declining to a record low of 0.8 per cent and a capital adequacy ratio of 16.6 per cent as of the end of September, the Reserve Bank of India said in its December edition of the Financial Stability Report (FSR).

The stress test results reveal that scheduled commercial banks (SCBs) are well-capitalised and capable of absorbing macroeconomic shocks even in the absence of any further capital infusion by stakeholders.

While the improvement in asset quality is broad-based, the report highlighted that bad loans from the farm sector remained high at 7 per cent. At an overall level, asset quality in the retail loans segment has improved, although there has been a marginal impairment in credit card receivables.

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STRESS TEST FINDINGS

- Net non-performing assets hit record low of **0.8%**
- Under baseline scenario, gross NPA ratio may improve to **3.1%** by Sept
- Capital position will be at **12.2%** under severe stress scenario, well above the minimum capital requirement
- The recent increase in risk weights of select retail loan categories may have implications for NBFC credit growth
- Contagion risks warrant monitoring due to increased inter-bank exposure

Detailed reports on P4

"WE REMAIN ALERT AND COMMITTED TO ACT EARLY AND DECISIVELY TO PREVENT ANY BUILDUP OF RISKS"

SHAKTIKANTA DAS
RBI Governor

RETAIL INVESTOR INTEREST IN F&Os, RALLY IN SMALL & MID CAPS FLAGGED

on the whole.

Banks...

Within the industrial sector, asset quality improved across all major sub-sectors barring infrastructure (other than electricity) and petroleum, the report said.

Under the baseline scenario, the aggregate capital adequacy ratio of 46 major banks is projected to slip to 14.8 per cent by September 2024 from 16.6 per cent in September 2023. The capital position will be at 12.2 per cent under a severe stress scenario, well above the minimum capital requirement.

"No SCB would breach the minimum capital requirement of 9 per cent in the next one year," the report said.

Under the baseline scenario, the gross non-performing asset (GNPA) ratio of all SCBs may improve to 3.1 per cent by September 2024 from the current level of 3.2 per cent.Stress in the non-banking financial company (NBFC) sector has been assessed to be higher under a high-risk stress scenario relative to the March 2023 position, the report said.

NBFCs' compound annual growth rate (CAGR) growth of personal loans (33 per cent) over the past four years far exceeded that for overall credit growth (nearly 15 per cent). "Going forward, the recent increase in risk weights of select retail loan categories may have implications for NBFC credit growth at the overall, sectoral, and sub-sectoral levels," it said.

The report warned about contagion risks that may warrant monitoring on account of increased inter-bank exposure.

The total outstanding bilateral exposures among the entities in the Indian financial system continued to expand, and the share of interbank exposures in the total assets of the system reached a three-year peak in September 2023.

Though contagion risk and consequent additional solvency losses to the banking system have increased marginally, it would not lead to the failure of any bank, it said.

As the Indian financial system is confronted with heightened global uncertainty and spillovers, the report said close and continuous monitoring is warranted to detect any undue risk build-up in the system.

This has to be supported by prudent management of exposures and building of financial buffers, it said.

BS SUDOKU # 4168

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Solution tomorrow

HOW TO PLAY

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