

Banks' gross NPAs at a decade low of 3.9%: RBI

Indian economy on a sustainable growth path, says report

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The asset quality of banks continued its improving trend with their gross non-performing asset (GNPA) ratio falling to its lowest in a decade and the net NPA touching 1 per cent, a decline not seen since March 2011, the data released by the Reserve Bank of India (RBI) in its bi-annual Financial Stability Report showed.

The capital adequacy ratio of banks is at a historical high.

The report said with the growth momentum continuing with moderating inflation, a narrowing current account deficit, rising foreign exchange reserves, fiscal consolidation, and a robust financial system were setting the economy on the path of sustained growth.

The report highlighted the global economy had been navigating successive high-amplitude shocks in the last three years, including the pandemic waves, protracted geopolitical hostilities, rapid monetary policy tightening, and the recent banking turmoil.

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▶ **CRAR, CET1 ratio of scheduled commercial banks rose to historical highs** of 17.1% and 13.9%, respectively, in March 2023

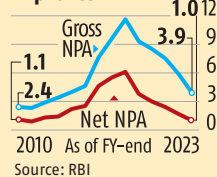
▶ **Provision coverage ratio improved to 74%**

▶ **PAT registered 38.4% growth** in 2022-23

▶ **Banks would be able to comply with minimum capital requirements** even under severe stress scenarios

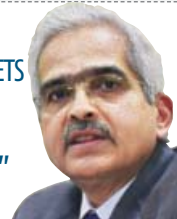
▶ **Persistence of core inflation** poses risks to growth

Banks' asset quality improves (in %)



BOTH BANKING AND CORPORATE SECTOR BALANCE SHEETS HAVE BEEN STRENGTHENED, ENGENDERING A 'TWIN BALANCE SHEET ADVANTAGE' FOR GROWTH"

Shaktikanta Das, RBI governor





in developing a component whether they grow themselves... could slow down the value... up a base in India will have... an companies' development... ur component ecosystem is... e-addition targets are set to

uations into expensive territory relative to historical levels. This has turned some analysts cautious.

"We remain cautious for now, given exceedingly rich valuations, margin erosion depleting India's relative profitability, consensus EPS growth expectations remaining too optimistic (certainly versus the delivered track record), the RBI likely lagging EM central banks in the timing and scale of policy easing, and our econometric model signalling the market is 14 per cent overbought," said a note by CLSA.

NPA...

The report said economic fragmentation was threatening macroeconomic prospects, especially among emerging

market and developing economies (EMDEs).

"Despite these heightened uncertainties and formidable headwinds, the Indian economy has made a solid recovery and is among the fastest-growing large economies," RBI Governor Shaktikanta Das said in the "Foreword".

Das said the Indian financial sector had been stable and resilient as reflected in sustained growth in bank credit, low NPAs, and adequate capital and liquidity buffers.

"Both (the) banking and corporate sector balance sheets have been strengthened, engendering a 'twin balance sheet advantage' for growth," Das said.

The report noted the healthy balance sheets of banks and companies were brightening the prospects for the Indian economy.

The gross NPA ratio of commercial banks was at 3.9 per cent as on March 31, 2023, as compared to 5.9 per cent a year ago.

As against the 1 per cent net NPA ratio, it was 1.7 per cent a year ago.

"The capital to risk-weighted assets ratio (CRAR) and the common equity tier 1 (CET1) ratio of scheduled commercial banks (SCBs) rose to historical highs of 17.1 per cent and 13.9 per cent, respectively, in March 2023," the report said.

Macro stress tests for credit risk show scheduled commercial banks would be able to comply with the minimum capital requirements even under severe stress scenarios.

The system-level capital to risk-weighted assets ratios in March 2024 -- under the baseline, medium and severe stress scenarios -- are projected at 16.1 per cent, 14.7 per cent, and 13.3 per cent, respectively.

According to the stress test results, the GNPA ratio of all scheduled commercial banks may improve to 3.6 per cent by

March 2024 under the baseline scenario. If, however, the macroeconomic environment worsens to a medium or severe stress scenario, the ratio may rise to 4.1 per cent and 5.1 per cent, respectively.

Simulated contagion analysis shows losses due to the failure of five banks with the maximum capacity would not lead to an additional bank failing.

At the same time, the provision coverage ratio (PCR), which was as low as 40.1 per cent in June 2016, has improved to 74.0 per cent in March 2023.

"Led by strong growth in net interest income and significant reduction in provisions, the profit after tax of SCBs registered a growth of 38.4 per cent in 2022-23," the report said.

Observing that the Indian economy exhibited stability and resilience despite multiple global headwinds, the report had a word of caution on inflation, particularly stubborn core inflation.

"The persistence of core inflation, notwithstanding a dip in April 2023, slower global growth and potential volatility in the global financial system, however, could pose risks to the growth trajectory," the report said.

The report said the headline inflation rate had moderated gradually, from its peak of 7.8 per cent in April 2022 to 4.3 per cent in May 2023, due to the combined impact of monetary tightening, supply-side measures, and the easing of global supply bottlenecks.

"Core inflation has eased but remains above 5 per cent. The pursuit of price stability while keeping in mind the objective of growth, therefore, remains the overarching priority of the Reserve Bank," it added.

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