Banks' net NPA ratio lowest in 10 yrs: RBI

FSR shows lenders can absorb shocks without capital infusion

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The rise in profitability that aided banks to improve their provisions has resulted in net non-performing assets (NPAs) to net advances ratio falling to 1.3 per cent in September 2022 – the lowest in 10 years — the Reserve Bank of India's (RBI's) Financial Stability Report said.

Net NPAs were at similar levels back in March 2012.

As of end-September, net NPAs of private banks had fallen to 0.8 per cent, as against 1.8 per cent for public sector banks (PSBs).

"The quarterly slippage ratio, which had been rising since December 2021, cooled off during Q2, 2022-23, with considerable improvement recorded by PSBs," the report said. The provision coverage ratio, which has been increasing steadily since March 2021, has reached 71.5 per cent in September 2022.

However, the write-offs to gross NPA ratio increased in the first half of 2022-23 on an annualised basis, after declining for two consecutive years.

Gross NPAs also continued their downward journey to reach 5 per cent at the end of September — a seven-year low — and is expected to trend down further to 4.9 per cent by September 2023. This was achieved on the back of decrease in slippages, increase in write-offs, and pick up in credit growth.

"Reduction in slippages, or fresh accretions to NPAs, was a major contributor to the reduction in overall NPAs," the report said.

"The declining tendency in the GNPA ratio is likely to continue — under the baseline scenario of the stress testing framework, it is projected to fall further to 4.9 per cent in September 2023," it said.

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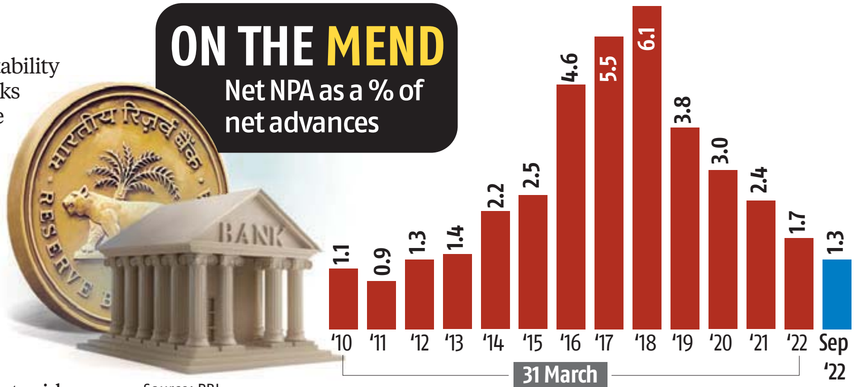

Source: RBI

Extraterritorial regulatory reach weakens domestic stability: RBI

Amid a tussle over supervisory powers with European regulators for domestic central counterparties, the Reserve Bank of India (RBI) said such extraterritorial reach could undermine domestic financial stability. In its bi-annual Financial Stability Report, the central bank said that to prevent a possible logjam there had been 'positive dialogue' with relevant stakeholders, including the European Securities and Markets Authority (ESMA) and the European Commission. 4 ▸

P4 ▸ 'BANKS USE QUALITY LIQUID ASSETS TO FUND CREDIT GROWTH'

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App makers...

The principle of charging commission is well defined—the commission is applicable only on apps selling digital goods and services and not physical goods and services.

Experts say that in simple term, this means that most popular apps such as Amazon, Flipkart, Zomato, Swiggy, Ola, Uber, and Policybazaar do not qualify to pay the standard 30 per cent commission.

It is big companies such as the big OTT platforms and India's big gaming and music streaming companies which qualify to pay as their services are consumed digitally.

Even here though, the 30 per cent commission applies only to apps which make more than $1 million as 'post commission earnings'.

Start ups and small businesses can enjoy the advantage of the Apple Store's small business programme under which developers have to pay only 15 per cent if they have earned less than $1 million in the previous calendar year. This represents the bulk of the developers.

If developers surpass $1 million, they have to pay 30 per cent but if their earnings fall below this in the next calendar year, they pay 15 per cent commission.

Google has been rationalizing its service fees in India too. Today, 99 per cent of developers qualify for a service fee of 15 per cent or lower.

In July 2021 it reduced the service fee on the first $1 million in annual developer earnings to 15 per cent.

Later that year, in October, Google changed the fee model for subscriptions from 30 per cent to 15 per cent and further reduced it to 10 per cent for specific verticals of apps under the Play Media Experience Programme.

Banks' net NPA ...

The resilience of the banking system is also evident from the stress tests conducted by the RBI, which showed that banks are fully capable of absorbing macroeconomic shocks, even without any infusion of capital by stakeholders.

Under the baseline scenario, the aggregate capital adequacy ratio (CAR) of 46 major banks is projected to slip from 15.8 per cent in September 2022 to 14.9 per cent by September 2023.

Further, CAR may go down to 14 per cent in the medium stress scenario and to 13.1 per cent under the severe stress scenario by September 2023, but it will still be above the minimum capital requirement, including capital conservation buffer (CCB) requirements of 11.5 per cent.

"None of the 46 SCBs (scheduled commercial banks) would breach the regulatory minimum capital requirement of 9 per cent in the next one year, even in a severely stressed situation, although nine SCBs may fall short of the minimum capital inclusive of CCB," the report said.

According to the report, under the baseline stress scenario, the common equity tier-1 (CET1) capital ratio of select banks will fall by 70 basis points to 12.1 per cent by September 2023 from 12.8 per cent in September 2022. Similarly, in a severely stressed macroeconomic environment, the aggregate CET1 capital ratio would deplete only by 210 basis points, which would not breach the minimum regulatory norms.

"...all banks would be able to meet the minimum regulatory CET1 ratio plus CCB of 8 per cent over the next one year under all the three scenarios," the RBI said.

Stress tests under baseline scenario suggest that gross NPAs of banks are expected to fall to 4.9 per cent by September 2023 from the current 5 per cent as of September 2022. However, if the macroeconomic environment worsens to a medium or severe stress scenario, gross NPAs may rise to 5.8 per cent and 7.8 per cent, respectively.

This is without taking the potential impact of stressed asset purchases by National Asset Reconstruction Company Limited (NARCL) into account and under the assumption that there will be no reliefs from the central bank.