Financial Stability Report: RBI

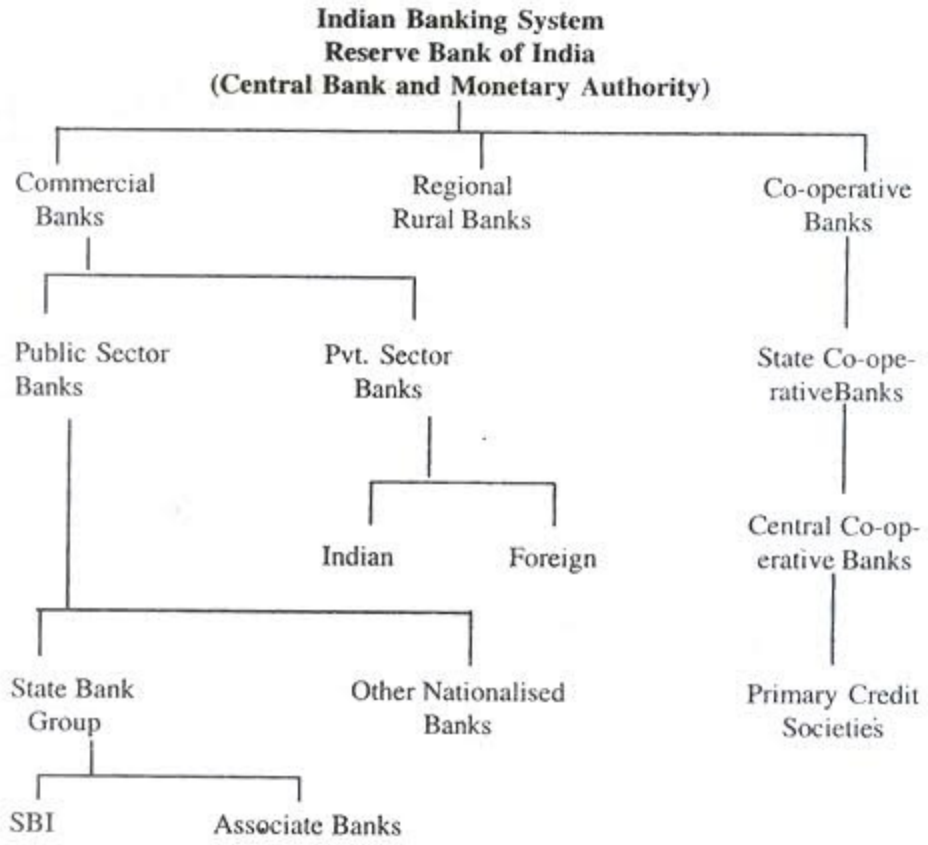
Why in News

The **Reserve Bank of India** has released the **20th issue of the Financial Stability Report (FSR).**

- The FSR reflects the collective assessment of the **Sub-Committee of the Financial Stability and Development Council (FSDC)** on risks to financial stability and the resilience of the financial system.
- The Report also discusses issues relating to development and regulation of the financial sector.

Key Points

- **Credit Growth**
  - **Bank credit** is the total amount of funds a person or business can borrow from a bank.
  - Scheduled Commercial Banks' (SCBs) credit growth remained subdued at 8.7% year-on-year (y-o-y) in September 2019, down from 13.2% in March 2019.
  - Private Sector Banks (PVBs) registered double digit credit growth of 16.5% in September 2019.
- **Expected Increase in Gross Non-Performing Asset (GNPA) Ratio**
  - SCB's Gross Non-Performing Asset (GNPA) ratio of banks may increase to 9.9% by September 2020 from 9.3% in September 2019.
  - Public Sector Banks' (PSB) GNPA ratios may increase to 13.2% by September 2020 from 12.7% in September 2019.
  - For private banks, the ratio may climb to 4.2% from 3.9%, under the stress scenario.
  - Foreign banks' (FB) GNPA ratio may increase to 3.1% from 2.9% in September 2019.



Non-Performing Asset

- Non-Performing Assets (NPA) refer to a classification for loans or advances that are in default or are in arrears on scheduled payments of principal or interest.
- In most cases, debt is classified as non-performing, when the loan payments have not been made for a minimum period of 90 days.
- Gross non-performing assets are the sum of all the loans that have been defaulted by the individuals who have acquired loans from the financial institution.
- Net non-performing assets are the amount that is realized after provision amount has been deducted from the gross non-performing assets.

- All banks' **Capital to Risk-weighted Assets Ratio (CRAR)** improved to 15.1% in September 2019 from 14.3% in March 2019, following the recapitalisation of PSBs by the government.
    - **CRAR** is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. It is **also known as the Capital Adequacy Ratio (CAR).**
    - CAR = (Tier 1 Capital + Tier 2 Capital)/Risk weighted Assets
    - **Tier-1 capital,** or core capital, consists of equity capital, ordinary share capital, intangible assets and audited revenue reserves. Tier-1 capital is the capital that is permanently and easily available to cushion losses suffered by a bank without it being required to stop operating.
    - **Tier-2 capital** comprises unaudited retained earnings, unaudited reserves and general loss reserves. This capital absorbs losses in the event of a company winding up or liquidating
- **Provision Coverage Ratio (PCR)** of all SCBs rose to 61.5% in September 2019 from 60.5% in March 2019 implying increased resilience of the banking sector.

    Provisioning Coverage Ratio (PCR) refers to the prescribed percentage of funds to be set aside by the banks for covering the prospective losses due to bad loans.

Way Forward

- The global economy confronted a number of uncertainties – a delay in the Brexit deal, trade tensions, oil-market disruptions and geopolitical risks – leading to significant deceleration in growth.
- As regards the domestic economy, aggregate demand slackened in second quarter of 2019-20 further extending the growth deceleration.
- Reviving the twin engines of consumption and investment while being vigilant about spillovers from global financial markets remains a critical challenge going forward.

Source: TH