



# Financial Stability Report: RBI

## Why in News

The **Reserve Bank of India** has released the **20<sup>th</sup> 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

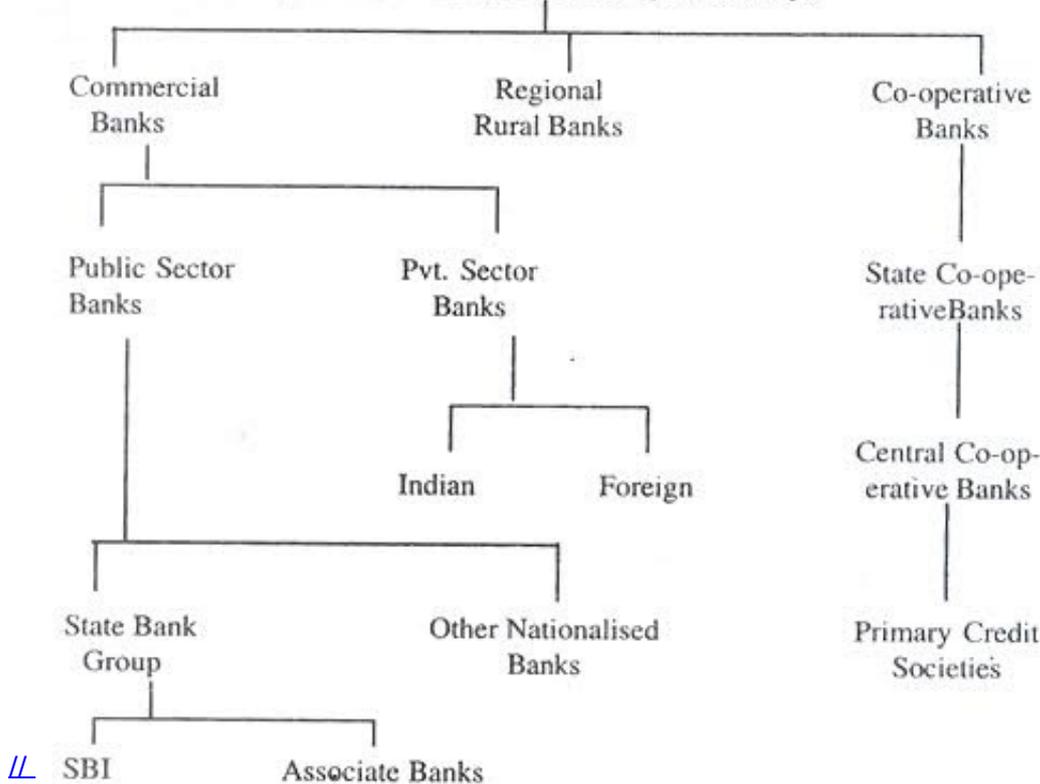
### ▪ Credit Growth

- **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.

**Indian Banking System**  
**Reserve Bank of India**  
**(Central Bank and Monetary Authority)**



▀ **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)**.
- $CAR = \frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Risk weighted Assets}}$
- **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**

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