

RBI fears credit tightening as banks clean up balance-sheets

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Financial Stability Report sees sector remaining risk-averse as loan book worsens



Mumbai, June 28:

Flagging the risk of more pain ahead for the banking sector, the Reserve Bank of India today said it feared that more serious impairment of loan books would induce greater risk-aversion and slower credit growth, as banks focus on strengthening their balance sheets.

The RBI's Financial Stability Report, released on Tuesday, warned that stability conditions in the banking sector, which started deteriorating in 2010, have worsened significantly.

According to the RBI's banking stability indicator, which maps five dimensions — soundness, asset quality, profitability, liquidity and efficiency — risks to the sector increased significantly during the second half of 2015-16 due to deteriorating asset quality and lower profitability.

While stress tests reveal resilience, the report cautioned that the system could become vulnerable if macroeconomic conditions deteriorate sharply.

Leveraged weak companies, with lower debt servicing capacity, may strain the already deteriorated asset quality of loans in adverse situation, it added.

Twin stresses

In his foreword, RBI Governor Raghuram Rajan said the stress in the banking sector, which mirrors the stress in the corporate sector, has to be dealt with in order to revive credit growth.

The gross non-performing advances (GNPAs) of scheduled commercial banks (SCBs) rose sharply to 7.6 per cent of gross advances, from 5.1 per cent between September 2015 and March 2016 after the asset quality review (AQR).

Public sector banks (PSBs) continued to hold the highest level of stressed advances ratio at 14.5 per cent, against 4.5 per cent for private sector banks (PVBs) and foreign banks (FBs).

Large borrowers' share rises

The share of large borrowers in total loans increased from 56.8 per cent to 58 per cent between September 2015 and March 2016. Their share in GNPAs rose from 83.4 per cent to 86.4 per cent during the same period. There was a sharp increase in the share of GNPAs of the top 100 large borrowers from 3.4 per cent in September 2015 to 22.3 per cent in March 2016, reflecting reclassification of restructured standard advances as non-performing.

SCBs' profit after tax (PAT) declined 43 per cent in FY2016 due to a sharp increase in risk provisions and write-offs. PSBs recorded a loss during FY2016 whereas PVBs showed 11.6 per cent growth in PAT on a year-on-year basis.

Overall credit and deposit growth of SCBs remained in single digits because of subdued performance of PSBs. Credit growth of all SCBs, on a y-o-y basis, declined to 8.8 per cent in March 2016 from 9.4 per cent in September 2015 while the growth in deposits declined to 8.1 per cent from 9.9 per cent.

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