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# Banking sector on course to recovery as NPAs recede: RBI

BY PTI | UPDATED: DEC 31, 2018, 06.12 PM IST

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The banking sector is on "course to recovery" as the afflicting non-performing assets recede, but state-run lenders need reforms in governance, Governor Shaktikanta Das said Monday.

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The weaker ones among the public sector banks need to be supported through recapitalisation, the Governor said in his foreword to RBI's half-yearly financial stability report (FSR).

"After a prolonged period of stress, the banking sector appears to be on course to recovery as the load of impaired assets recedes," Das, who took charge earlier this month after the sudden exit of [Urjit Patel](#), said.

He pointed out that the period till September has seen a decline in gross NPA ratios -- the first such dip in three years -- and also pointed out at improving provision coverage ratio, which is the ability of a bank to withstand stress, as a positive.

According to the FSR, gross NPAs ratio declined to 10.8 per cent in September 2018 from 11.5 per cent in March 2018, while for the state-run lenders, the same improved to 14.8 per cent in September 2018 from close to 15.2 per cent in March 2018.

Under the baseline scenario, the GNPA ratio of all banks may come down to 10.3 per cent by March 2019 from 10.8 per cent in September 2018, the report said.

RBI have pointed to an improvement in the

through the asset quality review, Das said  
bulk of the dud assets.

stantive reforms in governance and oversight  
e days after the Centre committed an

, which restricts their normal lending and is a  
g elections in a few months.

Ministry, said despite its high costs, the NPA  
recognition has led to improvements in the operational risk assessment at state-run lenders.

"...it appears to have led to a greater discipline in credit assessment, higher sensitivity to market risk and better appreciation of  
operational risks," he said.

Das acknowledged that some of the cases referred for resolution under the two-year-old bankruptcy framework have lagged time-lines,  
but said the Insolvency and Bankruptcy Code (IBC) will strengthen credit discipline.

"A time-bound resolution of impaired assets will go a long way in unclogging the credit pipeline thus improving the allocative efficiency in  
the economy," he said.

Das also touched on the troubled non-bank lending sector, saying the non banking finance companies (NBFCs) need to be more prudent on risk-taking and also underlined the need to rebalance excessive credit growth, especially the one funded by short term liabilities.

The high credit growth is "not stability enhancing", Das said.

Both the banks as well as non-banks need to be diligent, prudent and follow sound risk management practices as they support the growth needs of the economy, he said.

Das said the slowdown in GDP growth to 7.1 per cent is slower than expected, but pointed out to an uptick in gross fixed capital formation along with the dip in crude oil prices as a positive for a sustained growth going forward.

Globally, the threat of trade war which would have weakened growth prospects has softened, he said.

A stricter enforcement of global trade and investment rules could potentially lead to market stability and win-win bargains in trade, Das said. AA VT VT VT

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