



Finance ministry counters RBI, says stress in banking sector declining

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Somesh Jha | New Delhi December 29, 2019 Last Updated at 00:16 IST



Finance Minister Nirmala Sitharaman at a press conference in New Delhi after a meeting with CEOs of public sector banks and CBI Official on Saturday. (PHOTO-DALIP KUMAR)

The finance ministry on Saturday said the overall stress in the banking sector was declining, a day after the Reserve Bank of India (RBI) said in a report that the gross non-performing asset (NPA) ratio of banks was set to increase.

“It (the RBI’s report) is contrasting its earlier report released a few days back, which showed that NPAs are on a declining trend. You should also look at the stressed assets to total assets ratio, which has come down significantly. Further, SMA (special mention accounts)-1 and SMA-2 have come down drastically. So we are on a path of cleanliness and transparency,” Finance Secretary Rajiv Kumar said.

Finance Minister Nirmala Sitharaman declined to comment on it, saying the government would sit down with the RBI to understand the situation.

The gross NPA ratio of banks may increase from 9.3 per cent in September 2019 to 9.9 per cent by September 2020 “primarily due to changes in the macroeconomic scenario, a marginal increase in slippages,

and the denominator effect of declining credit growth”, according to the RBI’s Financial Stability Report (FSR), released on Friday.

According to the FSR, the regulator conducted macro stress tests for credit risks to assess the banking system’s resilience to macroeconomic shocks under baseline conditions. It assumed continuation of the current economic situation in the future. Kumar countered the RBI’s methodology in the FSR to arrive at the projected NPA figures by doing a stress test over a period of six-seven years.

“It’s based on default test of frauds and NPAs which have taken place over a period of six-seven years. If you take into account the previous three-four years, the picture will be totally different as the NPA of the period of stress in the past has been duly recognised today,” he added.

The net NPA ratio declined to 3.7 per cent in September 2019 from just below 4 per cent in March 2019, reflecting increased provisioning.

The government further said a report by rating agency ICRA, which showed that the bank credit was expected to grow at its slowest pace in around six decades in 2019-20, may be misleading. “This is based on loan outstanding. But it does not consider the pre-payments and recoveries which are taking place. Loan book may not show increase but credit growth is happening. A robust recovery rate will reduce the size of the loan book,” Kumar said.