

Risk aversion rising in banks, may hinder recovery if taken to extreme: FSR

Public sector banks chose to lend only to high-quality borrowers; there was a sharp credit contraction across all rating categories except 'AA and above', FSR points out

Abhijit Lele | Mumbai July 24, 2020 Last Updated at 20:07 IST

The risk aversion in extending credit, which grips public sector banks (PSBs), seems to be spreading to private lenders as well. This tendency, in an extreme case, may have an adverse effect, especially on the economic recovery prospects, according to the Financial Stability Report released by the Reserve Bank of India on Friday.

Policy measures have so far kept financial markets from freezing up, and eased liquidity stress facing financial institutions and households. Consequently, borrowing costs have ebbed and illiquidity premia have shrunk. Nonetheless, risk aversion and lacklustre demand have impeded the fuller flow of finance from both banks and non-banks into the economy, the report pointed out.

An analysis of wholesale credit growth (lending to corporates and industry) shows



An analysis of wholesale credit growth shows that PSBs chose to give money only to high-quality borrowers

Ratings, said banks, especially PSBs, are more concerned about the risks and are cherry-picking clients. This is good for making banking system robust. The downside risk is some drag on recovery. Realising this aspect, the government has already come up with scheme to provide guarantee for lending to micro, small, and medium enterprises. Such a cover should be extended to other segments based on due diligence, Sabnavis said.

that PSBs chose to give money only to high-quality borrowers. There was a sharp credit contraction across all rating categories, except 'AA and above', the FSR pointed out.

ALSO READ: [The Indian banking system is safe, but NPAs may shoot up, says RBI](#)

In contrast, private banks registered positive credit growth across rating categories and in both public sector and non-PSU obligors. This indicates overall risk aversion among private banks is less compared to PSBs, even as the latter may be trying to improve their risk management practices. However, the behaviour of private banks in the past two quarters is in sharp contrast to that in the past three years, it said.

In 2019-20, there was moderation in aggregate credit growth driven by private banks, reflecting heightened risk aversion as well as muted demand in sluggish macroeconomic conditions, it added.

Madan Sabnavis, chief economist at CARE

Referring to asset quality of banks, the report said a reduction in the overhang of stressed assets continued up to the early part of 2019-20, and fresh slippages were arrested. This was despite a prolonged slowdown in global and domestic growth impinging on credit demand. Towards the close of the fiscal year, these slow-moving improvements were overwhelmed

LOAN MORATORIUM STATUS

(Availed of as of April 30)

	% of total	PSBs	PVBs	NBFCs	System
CORPORATE	Customers	28.8	21.6	39.7	30.8
	Outstanding	58.0	19.6	56.2	41.9
MSME	Customers	73.9	20.9	60.7	45.8
	Outstanding	81.5	42.5	61.1	65.0
INDIVIDUAL	Customers	80.3	41.8	32.5	50.4
	Outstanding	80.0	33.6	45.9	55.3
Total	Customers	66.6	49.2	29.0	48.6
	Outstanding	67.9	31.1	49.0	50.1

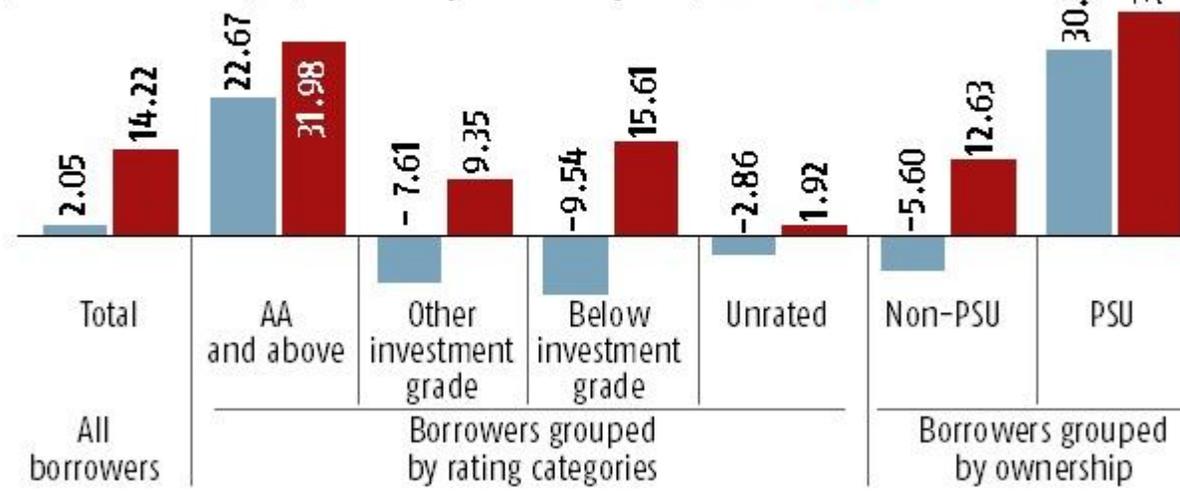
and halted by the outbreak of Covid-19. The regulatory dispensations — moratorium on loan instalments and deferment of interest payments — may have implications for the financial health of scheduled commercial banks going forward.

The moratorium — standstill on payments — as a step was announced to mitigate the burden of debt servicing and enable the continuity of viable businesses and households.

Supervised entities (SEs) have largely implemented these regulatory relief measures. Nearly half of the customers accounting for around half of outstanding bank loans opted to avail of the relief measures, report said.

Wholesale credit growth

(Based on CAGR (%) over the past three years) ■ PSBs ■ PVBs



ALSO READ: [Insolvency law caused rift with govt: Former RBI governor Urjit Patel](#)

The gross non-performing asset (GNPA) and NNPA ratios of all SCBs, which had reached 9.3 per cent in September 2019, came down to 8.5 per cent in March 2020. The net NPAs also declined from 3.7 per cent in September 2019 to 3 per cent in March. The decline in NPAs level masks the impact of moratorium that came into effect from March 1, and will remain in vogue till the end of August, bankers said.