Source : www.livemint.com Date : 2021-01-18

RBI BOARD FAVOURS NEW STRESS-TEST FORMULA

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The board has discussed doing away with the singular focus on NPAs in the bi-annual stress tests for RBI's Financial Stability Report

The central board of the Reserve Bank of India (RBI) wants banking system stress tests to include several parameters in addition to non-performing assets (NPAs), a person aware of the matter said.

The board has discussed doing away with the singular focus on NPAs in the bi-annual stress tests for RBI's Financial Stability Report (FSR), the person cited above said on condition of anonymity, adding multiple indicators are needed to identify emerging stress in the system.

Also Read | Churn in India's internet economy

In its latest FSR released on 11 January, RBI said gross NPAs could rise to 13.5% under the baseline stress scenario by 30 September 2021, the highest in more than 22 years, up from 7.5% as of 30 September 2020. It is predicted to almost double to 14.8% under a severe stress scenario.

“The issue has been discussed at the meetings of the central board and board of financial supervision. Irrespective of the stress tests, which are being done for so many years, RBI couldn't avert a crisis. It has been, therefore, discussed that RBI should not go by headline figures and should instead have multiple indicators to warn them about impending stress in the system. Indicators like credit disbursement, adoption of information technology across banks, etc., can be looked at for a comprehensive stress test," the person cited earlier said.

The scrutiny on stress tests comes after market participants raised concerns on the quality of these tests, which differ from projections by banks and rating agencies. According to the person cited earlier, stress tests should ideally prepare the system to handle a crisis by issuing early warnings.

Kotak Institutional Equities said in a 12 January note to clients that the Reserve Bank forecast places too much emphasis on history, and there has already been a significant default from the large corporate segment in the previous corporate bad loan cycle.

The report said RBI did not provide any details of the stress in the retail and small and medium enterprises (SMEs), which have been most affected by covid-19.

“Given that the impact of covid-related impairment has a large overlap (retail and SME portfolios) between banks and NBFCs (non-banking financial companies), it would appear surprising that the underwriting between the two lenders is so divergent. We would have liked the discussion paper to have given more details on the quality of the moratorium book (sector-wise, duration of moratorium adopted by borrowers, or customer profile-based ratings/CIBIL score) or perhaps more insights into the retail/SME portfolio that is likely to go under stress due to covid," the Kotak report said.

On 11 November, Soumya Kanti Ghosh, chief economist at State Bank of India, said in a report that the stress test needs to be revisited as its projections during fiscal years 2015 to 2018 were lower than the actual numbers, whereas in the fiscal years 2019, 2020 and 2021, the actual numbers were much lower than the projections.

This could be because RBI data on NPAs takes into account even the written-off loans. Since 2018, banks, especially public sector banks, have seen large loan write-offs.

Ghosh had also argued earlier that this year’s gross bad loan projections of RBI and banks could differ because of the way the moratorium data is calculated.

“Some of the banks have initially given blanket moratorium opt in, irrespective of their willingness and eligibility, to all their customers and such data was initially reported as one-size-fits-all. However, in reality, most of the customers continued to pay their EMIs (equated monthly instalments) even though they were offered. Subsequently, all these customers are reported in moratorium, though they are continuing payments of their EMI dues," Ghosh said in an August report.

END