

MAINTENANCE OF CAR BY BANKS

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

Ministry of Finance

Maintenance of CAR by Banks

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As per RBI guidelines, banks are required to maintain a minimum Capital to Risk-weighted Assets (CRAR) of 9% on an ongoing basis. As on 31.3.2019, all Public Sector Banks (PSBs) and Private Sector Banks meet this minimum CRAR requirement. As per RBI's Financial Stability Report (FSR) of June 2019, as on 31.3.2019, the CRAR, for Scheduled Commercial Banks (which include both PSBs and Private Sector Banks) and PSBs was 14.3% and 12.2% respectively.

As per FSR of June 2019, growth of gross non-performing assets (NPAs) has decelerated across all bank groups, including PSBs, and further, due to the increased pace of recognition of NPAs, NPAs in the banking system peaked in March 2018 and have since declined to 9.3% in March 2019, signalling a turnaround in the NPA cycle. In addition, under the baseline scenario of macro-stress tests for credit, FSR has projected further decrease in the gross NPA ratio of all Scheduled Commercial Banks to 9.0% by March 2020, driven by a decline in the gross NPA ratios of PSBs" from 12.6% to 12.0% over the same period.

As per the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999, credit rating agencies rate securities offered by way of public or rights issue. Accordingly, credit rating agencies rate securities and not industry. However, recent credit rating agency reports have highlighted several positive aspects regarding the Indian Banking sector including inter-alia, the following:

- i. CRISIL, a subsidiary of the leading international credit rating agency S&P Global, in its article titled 'Bank NPAs to shrink 350 bps to ~8% by March 2020', has stated: "Asset quality of banks should witness a decisive turnaround this fiscal with gross non-performing assets (NPAs) reducing by 350 basis points (bps) over two years to ~8% by March 2020 compared with a peak of ~11.5% in March 2018 and 9.3% in March 2019... PSBs should see their gross NPAs climb down over 400 bps to ~10.6% by March 2020."
- ii. ICRA, an associate of the leading international credit rating agency Moody's Investor Service, in its report titled 'ICRA Looks at Sectoral Development Prospects for NDA 2.0', has stated: "The GNPA and NNPA of PSBs is expected to decline to 8.1-8.4% and 3.5-3.6% by March 2020."

This was stated by Shri Anurag Singh Thakur, Minister of State for Finance & Corporate Affairs in a written reply to a question in Lok Sabha today.

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