Source : www.thehindu.com Date : 2021-05-28

UNCERTAINTY, RISKS CLOUD OUTLOOK: RBI

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

Slippery path:Edible oils and pulses may continue to see pressure due to supply issues, the RBI says.PTI

Embattled by new waves of COVID-19 infections and mutant strains of the virus, the slow pace of inoculation in several parts of the world and vaccine protectionism, the global and domestic outlook has once again turned grim and overcast with extreme uncertainty and downside risks, the Reserve Bank of India (RBI) said in its annual report for 2020-21.

“Country experiences underscore the paramount need for speedy and universal vaccination on a war footing — the virus will mutate as long as it stays with humans; nobody is safe until everyone is safe,” the RBI added.

Consumption revival key

A durable revival of private consumption and investment would be critical for sustaining economic growth post-pandemic, the RBI said.

“For a self-sustaining GDP growth trajectory post-COVID-19, a durable revival in private consumption and investment demand together would be critical as they account for around 85% of GDP,” it added.

Price pressures

The RBI also cautioned that demand-supply imbalances could continue to exert pressure on the prices of pulses and edible oils, even as prices of cereals could likely see softening on the back of bumper foodgrains production in 2020-21.

The RBI also expects global crude oil prices remaining volatile in the near term.

‘Monitor bad loans’

The regulator also asked banks to closely monitor bad loans and prepare for higher provisioning in the wake of the second COVID wave and the Supreme Court order lifting the ban on classification of non-performing assets.

The waiver of compound interest on all loan accounts that had opted for moratorium during March-August 2020 may put stress on banks’ financial health, the central bank said.

The apex bank, however, expressed confidence that banks were better positioned than before in managing stress in their balance sheets in view of higher capital buffers, improvement in recoveries and a return to profitability.

Stating that the gross non-performing assets ratio of scheduled commercial banks declined to 6.8% by end-December 2020, from 8.2% in March 2020, the Reserve Bank said prudent provisioning had resulted in an improvement in the provision coverage ratio to 75.5% from 66.6%.

“As growth revives and economy gets back on track, it is important for the government to adhere to a clear exit strategy and build fiscal buffers, which can be tapped into in events of future shocks to growth," the central bank said.

(With PTI inputs)

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