Source : www.thehindu.com Date : 2018-11-28

NPAS ON DOWNHILL PATH SINCE MARCH PEAK, SAYS RBI

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

Both gross and net non-performing assets (NPAs) of scheduled commercial banks have reduced in the two quarters ending September 30, 2018 since their peak in March 2018, the Reserve Bank of India (RBI) said on Tuesday.

However, the RBI did point out that the profitability of banks was still impacted due to a decline in earnings from loan assets and on higher provisioning required due to deterioration in asset quality.

That said, it highlighted the bank credit growth that had accelerated over the last two quarters.

The RBI, in its submissions to the Standing Committee on Finance, said that the gross and net NPAs of scheduled commercial banks had reduced due to the concerted efforts taken by the government and the central bank to address the problem.

“As a consequence of these measures, the gross NPAs as well as net NPAs of the scheduled commercial banks, after peaking in March 2018, have registered declines for two consecutive quarters,” the RBI said in its submission reviewed by *The Hindu.*

The data shows that gross non-performing assets of all scheduled commercial banks were at Rs. 10.36 lakh crore at the end of the March 2018 quarter, and subsequently declined to Rs. 10.14 lakh crore by the end of the September quarter.

Public sector banks account for an overwhelming proportion of these gross NPAs but even their contribution had marginally come down since March 2018. Where public sector banks accounted for 86.6% of all gross NPAs of scheduled commercial banks, this fell to 85.9% by September 30, 2018.

Net NPAs for all scheduled commercial banks fell from Rs. 4.54 lakh crore in the March quarter to Rs. 4.10 lakh crore as of September 30. Correspondingly, the net NPA percentage fell from 7.97% to 7.19% over the same period.

Sharp fall in slippages

“The annualised slippage ratio (i.e. the percentage of fresh NPAs as percentage of standard advances at the beginning of the quarter) has also witnessed a declining trend over the past two quarters, which is again reflective of the improving credit discipline,” it said.

“The profitability of banks, though, continues to be impacted on account of the decline in earnings from loan assets, and given the higher provisions that are required to be maintained to reflect the deterioration in asset quality, which will eventually crystallise as actual losses,” the the central bank added. “However, the decline in NPAs, particularly fresh slippages, will reflect in the improved profitability going forward.” The RBI said that although weak bank balance sheets had created significant headwinds for credit growth, this had still been picking up on a year-on-year basis.

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