

## RBI FINANCIAL STABILITY REPORT (FSR)

11 January 2021

### RBI's FSR points to higher NPAs

RBI's FSR noted increase in GNPA of SCBs to 13.5% in base case and 14.8% under severe stress. However, it does point out that SCBs are in much better position with CRAR of 15.6% (from 14.7% as of Mar'20) and PCR of 72.4% (from 66.2%). SMA2 (as % of advances) for large corporates shows increase of 5.5% from Sep'20, indicating higher stress. Better quality corporates are also deleveraging, driving credit growth lower. While PSBs are witnessing an increase in market share in consumer credit, PVBs are seeing an increase in MSMEs.

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**Stress to build-up:** RBI's FSR pointed out that GNPA ratio of SCBs is likely to shoot up to 13.5% in base case and 14.8% under severe stress compared with 7.5% as of Sep'20. This will be led by PSBs whose GNPA ratio under base case and severe stress would rise to 16.2% and 17.6% respectively. CRAR of SCBs would also deteriorate to 14% in base case and 12.5% under severe stress scenario compared with 15.6% as of Sep'20.

**SMA movement shows stress increasing:** RBI's FSR shows that for large corporate accounts (non-PSU non-financial obligors, Rs 22.39tn as of 31 Aug'20), the proportion of assets in SMA2 has increased to 7.2% as of Nov'20 compared with 1.7% as of Sep'20. This is the leading indicator of build-up of stress in wholesale portfolio category. However, proportion of assets under SMA0 has fallen to 7.5% as of Nov'20 from 11.8% as of Sep'20 and under SMA1, it has remained stable at 3.3%.

**Credit and deposit growth:** Credit growth of SCBs moderated to 5% in Sep'20 from 5.7% in Mar'20. Easing was visible in private bank credit (7.1% from 10.4%). However, for PSBs it noted a pick up from 3% to 4.6%. PSBs are gaining market share in consumer credit with inquiry volumes at 5% as of Sep'20 compared with a decline of 10% and 25% for PVBs and NBFCs respectively. On the other hand, in MSME segment, PVBs are reporting a much higher increase in inquiry volumes at 14% compared with a decline of 20.2% for NBFCs and 2% for PSBs. On an overall basis, NBFCs' credit grew at a tepid pace of 4.4% on YoY basis compared with 22% a year ago.

#### KEY HIGHLIGHTS

- Stress test shows GNPA ratio is likely to shoot up to 14.8% under severe stress and CRAR would deteriorate to 12.5%.
- SMA2 data of corporates have increased which shows rising stress.
- PSBs are gaining market share in consumer credit with inquiry volumes at 5% as of Sep'20.



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