



Central bank recap

Posted at: 29/11/2018

Central bank recap-Urjit Patel provides reassuring signals on NPAs and the RBI-Centre détente

- There are two important takeaways from the deposition of Reserve Bank of India Governor Urjit Patel before the Parliamentary Standing Committee on Finance.
- First, the banking industry is over the hump on non-performing assets (NPAs), which peaked in the quarter ending March 2018 at 11.18% of advances.
- Both gross and net NPAs have registered a decline for two consecutive quarters — June and September 2018.
- Crucially, there has been a sharp fall in slippages (fresh NPAs added to the existing heap) from 7.3% in March 2018 to 3.87% in September.
- Profitability of banks will continue to remain under stress as they provide for the bad loans in their books and/or take hair-cuts on recoveries through the insolvency process.
- Meanwhile, banks will also have to be wary of their small loans portfolio, especially those made under the Pradhan Mantri Mudra Yojana, which already add up to Rs.6.77 lakh crore.
- These will need close monitoring.
- The second important aspect of Mr. Patel's deposition was his spirited defence of the RBI's autonomy.
- The issue of autonomy is clearly the gorilla in the room and driving it out is not going to be an easy task.
- Yet, for the Centre and the RBI there is no alternative but to continue talking on this subject even while ensuring that it does not cast a shadow over their other respective roles and responsibilities.
- The issue of RBI autonomy is not something that first emerged during this government's tenure, nor is it likely to be solved in its remaining tenure.