Reality check On bank NPAs

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Highlights

- The financial stability report released by the Reserve Bank of India on Tuesday has warned that the gross non-performing assets (GNPAs) of scheduled commercial banks in the country could rise from 11.6% in March 2018 to 12.2% in March 2019, which would be the highest level of bad debt in almost two decades.
- The RBI believes that this will increase the size of provisioning for losses and affect the capital position of banks.
- The deteriorating health of banks is in contrast to the economy, which is on the path to recovery, clocking a healthy growth rate of 7.7% during the last quarter.

- External risks

  - The tightening of monetary policy by the United States Federal Reserve and increased borrowing by the U.S.government have already caused credit to flow out of emerging markets such as India.
  - The increase in commodity prices is another risk on the horizon that could pose a significant threat to the rupee and the country's fiscal and current account deficits.

- A major highlight of the financial stability report is the central bank's finding that public sector banks (PSBs) are far more prone to fraud than their private sector counterparts.
- The RBI notes that more than 85% of frauds could be linked to PSBs, even though their share of overall credit is only about 65%.
- RBI expects the government's recapitalisation plan for banks and the implementation of the Insolvency and Bankruptcy Code to improve the capital position of banks.
- Government needs to make drastic changes to operational autonomy and the ownership of PSBs ,so that future crises will be prevented.

Source: The HIndu