BUSINESS

# Banks, NBFCs have sufficient capital buffer to withstand any shock: RBI

SPECIAL CORRESPONDENT

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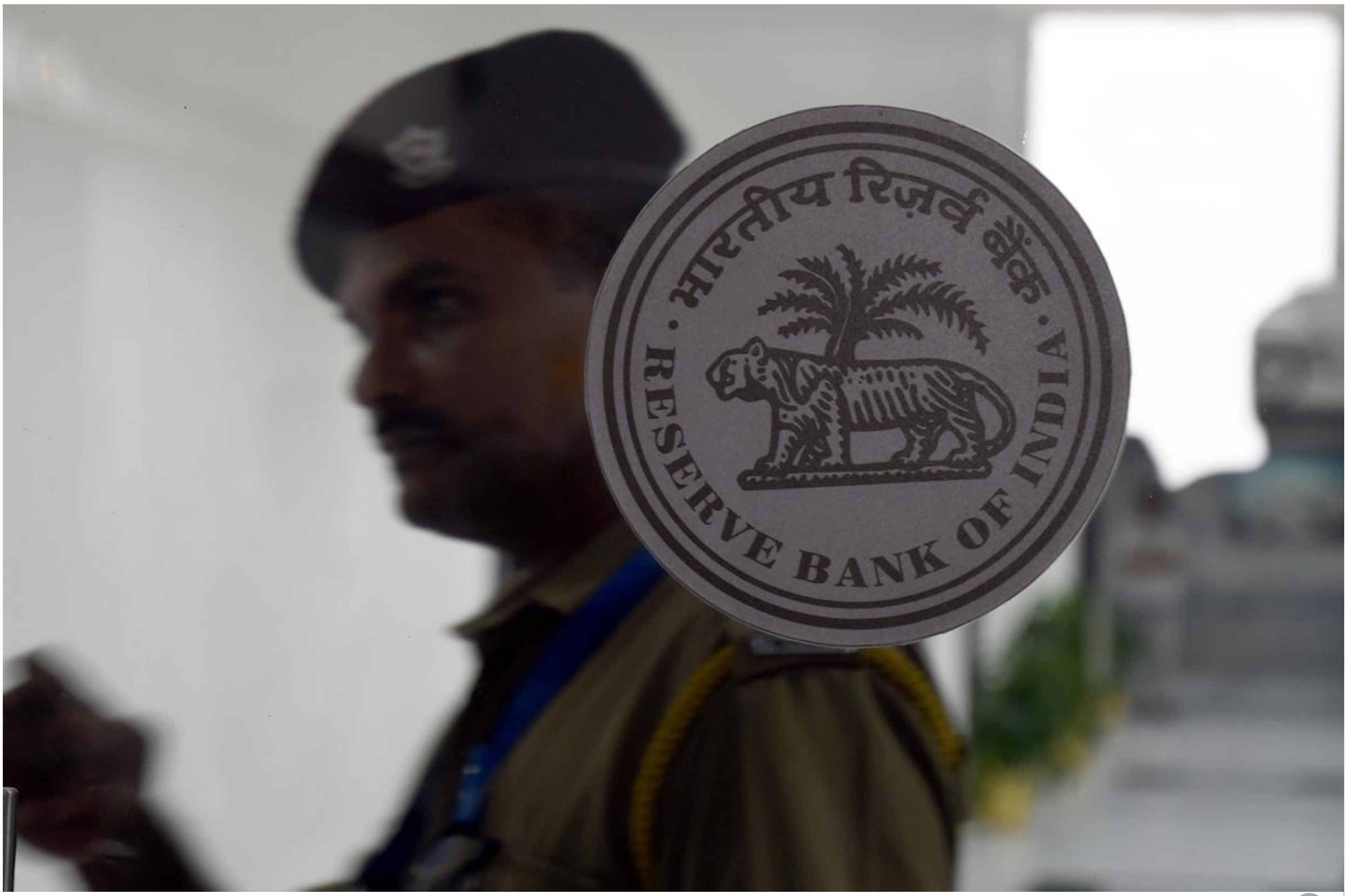
**Financial Stability Report underlines improvements in lenders' asset quality**




India's scheduled commercial banks (SCBs) as well as non-banking financial companies (NBFCs) have sufficient capital buffers to withstand any shock that may emanate from the pandemic or the ongoing geopolitical tensions in Europe, the Reserve Bank of India said in its biannual Financial Stability Report (FSR) released on Thursday.

Banks have "bolstered capital and liquidity positions while asset quality has improved. NBFCs remain well capitalised. Market risks are rising as spells of volatility are unleashed by foreign portfolio investment outflows and the sharp appreciation of the U.S. dollar," the RBI noted.

Observing that the outlook for the global economy was shrouded by considerable uncertainty on account of the war in Ukraine, elevated commodity prices, supply chain disruptions and darkening growth prospects, the RBI said: "Stagflation risks are mounting for EMEs and advanced economies alike as tightening financial conditions threaten to restrain the pace of growth with inflationary pressures".

Given the global uncertainty and spillover risks to the Indian economy, India's financial system was well capitalised and returning to profitability, RBI Governor Shaktikanta Das wrote in the foreword to the report.

SCBs maintained robust capital positions, with the capital to risk weighted assets ratio (CRAR) rising to a new high of 16.7%, while their gross non-performing assets (GNPA) ratio slipped to a six-year low of 5.9% and net non-performing assets (NNPA) ratio fell to 1.7% in March 2022.

The provisioning coverage ratio (PCR) increased to 70.9% in March 2022, from 67.6% in March 2021

"Macro-stress tests for credit risk reveal that SCBs are well-capitalised and all banks would be able to comply with the minimum capital requirements even under adverse stress scenarios," the RBI asserted.

Noting that network analysis indicated that the total outstanding bilateral exposures among constituents of the financial system continued to grow, the RBI said the share of SCBs in bilateral exposure remained the largest, although lower than pre-pandemic levels.

"A simulated contagion analysis shows that even though losses due to failure of five banks with the maximum capacity to cause contagion increased in March 2022 vis-à-vis their September 2021 position, this would not lead to failure of any additional bank," the RBI stressed in the report.

"The innate strength and resilience of our macro fundamentals is catalysing a steady recovery," Mr. Das said. "The corporate sector is deleveraged with stronger bottom lines. The external sector is well-buffered to withstand the ongoing terms of trade shocks and portfolio outflows," he added.

"In a dynamic environment with considerable uncertainty, we have been proactive and nimble footed in our policy responses. We have been calibrating our actions to the need of the hour and striving to preserve macroeconomic and financial stability to ensure sustainable and inclusive growth," he added. Stating that a noteworthy feature of the current situation was the overall resilience of the Indian financial institutions, which should stand the economy in good stead, he said the stress test results presented in the report demonstrated "that banks are well positioned to withstand even severe stress scenarios without falling below the minimum capital requirement".

He also flagged cryptocurrencies as a clear danger among the emerging risks on the horizon.

“Anything that derives value based on make believe, without any underlying, is just speculation under a sophisticated name. While technology has supported the reach of the financial sector and its benefits must be fully harnessed, its potential to disrupt financial stability has to be guarded against,” he stressed.

“Overall, the financial stability risks to the Indian economy are skewed towards global spillovers and geopolitical tensions. Nevertheless, the Indian financial system exhibits underlying robustness and resilience to withstand these shocks,” Mr. Das said.