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Asset quality of Indian banks improves to decadal high: RBI

Consolidated balance sheet of banks grew 12.2% in FY23, the highest in 9 years

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During 2022-23, about 45% of reduction in GNPA of SCBs was contributed by recoveries and upgradations, the RBI said. | Photo Credit: PTI

The Gross Non-Performing Assets (GNPA) ratio of Indian scheduled commercial banks (SCBs) went on improving in the second quarter of this financial year, dropping to a fresh

decadal low, according to the Reserve Bank of India's (RBI's) report titled 'Trend and Progress of Banking in India'.



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"The improvement in asset quality, measured by GNPA ratios, that began in 2018-19 continued during 2022-23. The GNPA ratio of SCBs fell to a decadal low of 3.9% at end-March 2023 and further to 3.2% at end-September 2023," the RBI said in the report which was released on Wednesday.

During 2022-23, about 45% of reduction in GNPA of SCBs was contributed by recoveries and upgradations, it added.

As per the report, the consolidated balance sheet of SCBs (excluding Regional Rural Banks) grew by 12.2% in 2022-23, the highest in nine years. "The main driver of this growth on the asset side was bank credit, which recorded its fastest pace of expansion in more than a decade," the central bank said.

It said during 2022-23, the combined balance sheets of commercial banks expanded in double digits, driven by sustained credit growth. Higher lending rates and lower provisioning requirements helped improve the profitability of banks and shored up their capital positions, it added. The capital to risk weighted assets ratio (CRAR) of SCBs was 16.8% at end-September 2023, with all bank groups meeting the regulatory minimum requirement and the common equity tier 1 (CET1) ratio requirement.

The combined balance sheet of urban co-operative banks (UCBs) expanded by 2.3% in 2022-23, driven by loans and advances. Their capital buffers and profitability improved through 2022-23 and Q1:2023-24, the RBI said.

According to the report the consolidated balance sheet of non-banking financial companies (NBFCs) expanded by 14.8% in 2022-23, led by double digit credit growth.

“Profitability and asset quality of the sector also improved in 2022-23 and in H1:2023-24, even as the sector remained well-capitalised with Capital to Risk (Weighted) Asset Ratio (CRAR) higher than the regulatory requirement,” it said.

Looking ahead in 2024, the RBI said in this environment, banks must guard against credit losses although higher capital buffers and provision coverage ratio (PCR) provide cushions.

“In addition to regulatory capital and liquidity requirements, qualitative metrics such as enhanced disclosures, strong code of conduct and clear governance structures would contribute towards financial stability,” it emphasised.

Stating that the global environment remained highly uncertain, it said the Indian banking system was well positioned to improve further, with better asset quality, high capital adequacy and robust profitability.

“Financial stability is being underpinned by corporates’ stronger financials and deleveraging of their balance sheets,” it added.

Highlighting that in the recent period, the rate of growth of the unsecured retail segment had outpaced total bank credit growth, the central bank said the asset quality of the unsecured retail loans had not shown any deterioration so far.

“The calibrated and targeted macroprudential measures announced in November 2023 in respect of select categories of consumer credit loans and bank lending to NBFCs are pre-emptive in nature and in the interest of financial stability,” it said.

Looking ahead, given the increasing interconnectedness between banks and NBFCs, the RBI said NBFCs should focus on broadbasing their funding sources and reduce overdependence on bank funding.

“Banks and nonbanks both, need to bring in greater empathy in their customer services,” it said.

Drawing the attention of all stakeholders to protect the banking system and the payments system from the risks of fraud and data breaches emanating from cyber threats, the central

bank said overall, the banks and NBFCs must further strengthen their balance sheets through robust governance and risk management practices to meet the growing aspirations of the Indian economy.

Phenomenal resilience displayed by banking sector: Khara

Meanwhile, Dinesh Khara, Chairman, State Bank of India (SBI) while speaking at the tenth edition of the SBI Banking & Economic Conclave 2023 in Mumbai said over the last one year, the economy had moved from strength to strength and the banking sector had displayed phenomenal resilience.

“Banks delivered very good performance in FY23 as also in first half of FY24, strengthening capital and other key ratios, gearing up to attain scale to finance multiple large value projects/capex and ambitious transition to clean/green energy and mobility, while also building huge digital capabilities and forward-looking risk metrics to efficiently serve a large consumption centric young population,” he said.

“The ‘twin balance sheet advantage, seems truly the new normal for underpinning the holistic economic growth that permeates horizons not seen before,” he added.

Emphasising that uncertainties continued to mar global economic and geopolitical landscape, he said India had weathered these headwinds and emerged resilient and was all set to regain the lost ground.

“The Indian economy has continued exhibiting robust resilience during the current year too, building upon the momentum initiated during 2022-23, notwithstanding the global turmoil as escalating multiple footprints of geopolitical tensions threaten to change the terms of trade, clocking growth rate of 7.7% in H1’ FY23-24, the highest among major economies in the world,” he said

In the backdrop of failure of large banking institutions globally this year, “the relative calmness here signals an unparalleled maturity of ecosystem that seems a harbinger of good times ahead,” he added.