INDUSTRY

'Bank NPAs set to rise, deposit growth outpacing credit flow'

SPECIAL CORRESPONDENT

MUMBAI , JUNE 05, 2021 23:45 IST
UPDATED: JUNE 05, 2021 22:53 IST

'Expansion in credit in FY21 was the lowest in four years'

Gross non-performing asset (GNPA) ratios of scheduled commercial banks (SCBs) are expected to shoot up in the coming quarters, according to data compiled by BCT Digital. This is despite the regulatory interventions to provide relief to both borrowers and lenders in the wake of the pandemic.

The GNPA for the banking system was at 7.5% in September 2020, an improvement from pre-pandemic levels, and coming after the asset quality review mandated by the regulator. This number is expected to shoot up to 13.5% in a base-case scenario and 14.8% in an extreme scenario by September 2021 as per RBI's assessment in the latest Financial Stability Report (FSR), said Jaya Vaidhyanathan, CEO of BCT Digital, which helps banks manage risk.

"For public sector banks, GNPAs are expected to zoom from 9.7% in September 2020 to 16.2% and 17.6% in the base case and extreme scenarios, respectively, by September 2021," she added. Though banks were adequately capitalised as on March 31, 2021, RBI Governor Shaktikanta Das on Friday re-emphasised the need for banks to build capital buffers. "Building adequate provisioning and capital buffers, together with sound corporate governance in financial entities, have become much more important than ever before, more so in the context of banks and NBFCs being at the forefront of our efforts to mitigate the economic impact of COVID-19," he said. Meanwhile as per data from the Financial Stability Report bBanks' credit and deposit growths are seen moving in opposite directions. While bank customers are found to be getting worried about their future and are saving aggressively, banks, though flush with cash, are not comfortable not seen comfortable to lending, according to analysts.

As per data that BCT Digital has collated from RBI's latest Financial Stability Report, the September 2015 quarter saw year-on-year (YoY) credit growth of 9.4%.

It which reduced declined to 8.8% in March 2016, the first quarter after the asset quality review was mandated. In March 2017, YoY credit growth slowed sharply to 4.4% while September 2019 saw 8.7% growth. Credit grew 5.9% and 5%, in March and September 2020, respectively.

Deposit growth, however, has quickened. September 2015 saw YoY deposit growth of 9.9% while March 2016 and March 2017 posted 8.1% and 11.1%, respectively. Growth was 10.2%, 8.6% and 10.3% in September 2019, March 2020 and September 2020. "A simple comparison of deposit and credit growth rates in this period tells us that banks are flush with funds but are simply too scared to lend," said Ms. Vaidhyanathan.

"As on September 2020, the banking system recorded abysmal credit growth of only 5% YoY despite the relief package announced, while deposit growth has been recorded at 10.3%. This means that customers are worried about their future and are saving aggressively. This trend continued through March 2021 as well, with credit growth of 5.6% and deposit growth of 12.3% YoY," she said.

Care Ratings recently said FY21 credit growth was the lowest in 4 years as lenders and borrowers have remained risk averse due to the pandemic-led uncertainty.

THE HINDU

Our code of editorial values

Printable version | Jun 7, 2021 11:58:43 AM |
https://www.thehindu.com/business/Industry/bank-npas-set-to-rise-deposit-growth-outpacing-credit-flow/article34740975.ece

© THG PUBLISHING PVT LTD.