

RBI FINANCIAL STABILITY REPORT (FSR)

30 December 2021

Financial soundness; monitoring stress in MSMEs

RBI's FSR highlighted that major financial indicators of banks such as GNPA ratio (6.9%), CRAR (16.6%-all time high) and PCR (68.1%) improved in Sep'21 versus Mar'21. Even under severe stress, it noted that all banks would be able to comply with the minimum capital requirements. Risks remain with regard to MSME and new credit segment (key driver of consumer credit). Further RBI said that yield curve is likely to flatten with faster pace of increase in short term yields due to policy normalisation.

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Soundness of financial indicators: RBI stated that balance sheets of banks remained strong. Improvement was seen in asset quality, liquidity and profitability indicators. GNPA ratio of SCBs improved to 6.9% in Sep'21 from 7.5% in Mar'21. CRAR ratio peaked to an all-time high of 16.6% in Sep'21 from 16% in Mar'21. PCR rose to 68.1% in Sep'21 from 67.6% in Mar'21. Even under severe stress in Sep'22, GNPA ratio would be only 9.5%, CRAR ratio would deteriorate to 13.8%. Notably, it was mentioned that all banks would be able to comply with the minimum capital requirements, even under severe stress scenario.

Consumer credit and MSME: Retail led credit growth is confronting headwinds due to: 1.) Increase in delinquency in consumer finance portfolio, 90+ dpd have grown from 2.4% in Q12020 to 3.01% in Q32021, and 2.) Slowdown in new credit segment (key driver of consumer credit); origination volume of which has fallen to 14% in Q32021 from 17% in Q12020. However, improving inquiry volumes by risk tier from subprime consumers, especially after the second wave, is a positive. On MSME, the report stated during Mar-Sep'21, there has been transition of low and medium risk borrowers to high-risk category. Notably, MSME portfolio of PSBs and PVBs also signal accumulation in NPA and SMA-2 categories in Sep'21 against Mar'21.

Delay in recovery: An analysis of 60 corporate debtors under IBC between Sep'19-Sep'21 showed recovery rate at 24.7%. Notably, there has been significant delays in respect of asset classes held by ARCs (4.3 years) vis-a-vis other creditors. Thus for faster resolution, provisioning at early stages of impairment, incentivising all channels of resolution and reviewing provisioning norms are essential.

Recovery despite headwinds: Consumer confidence and business optimism has gained strength on account of faster pace of vaccination (~60%-fully vaccinated). High frequency indicators have also improved in Q3FY22. Even government and financial sector regulators' effort have lent support. Credit demand is also picking pace. However, risks emanate from Omicron, muted private consumption and investment demand (below pre-pandemic levels). Further, commodity prices, domestic inflation and equity price volatility may pose major risks in the near term.

Key highlights

- CRAR ratio at an all-time high of 16.6% in Sep'21.
- GNPA ratio improved to 6.9% in Sep'21 from 7.5% in Mar'21.
- Even under stress, GNPA ratio would rise to only 9.5%.
- Risks remain from MSME and new credit segment.



Fig 1- Results of macro stress test

Indicators	Baseline		Medium		Severe	
	H2FY22	H1FY23	H2FY22	H1FY23	H2FY22	H1FY23
GDP	6.3	12.5	4.0	7.2	(2.1)	1.1
CPI	5.4	5.0	6.3	7.2	8.8	9.6
Combined Gross Fiscal Deficit ratio	10.8	9.9	11.5	11.5	13.2	13.3
WALR	9.1	9.1	9.4	10.0	10.5	11.1
Current Account balance ratio	(0.9)	(1.2)	(1.5)	(2.7)	(3.2)	(4.4)

Source: RBI, Bank of Baroda Research

Fig 2- Distribution of MSME portfolio of PSBs and PVBs (%)

Quarter	PSBs					PVBs				
	0 days past due	SMA-0	SMA-1	SMA-2	NPA	0 days past due	SMA-0	SMA-1	SMA-2	NPA
Mar-21	61.2	10.2	8.4	3.4	16.8	89.4	3.8	2.4	0.8	3.6
Jun-21	60.9	10.9	4.6	4.8	18.8	86.0	5.9	2.8	1.7	3.6
Sep-21	66.6	7.6	3.4	3.9	18.5	87.9	5.5	1.7	2.1	2.8

Source: RBI, Bank of Baroda Research

Fig 3- Delinquency levels in aggregate consumer credit

Months	PSB	PVB	NBFC/HFC	FinTech
Sep-20	5.48	1.56	2.53	1.82
Oct-20	5.38	1.55	2.45	1.94
Nov-20	5.10	1.93	2.90	2.87
Dec-20	4.94	2.49	3.39	5.88
Jan-21	4.87	2.66	3.76	6.60
Feb-21	4.54	2.61	3.43	6.22
Mar-21	4.89	2.01	3.04	3.14
Apr-21	4.92	2.03	3.95	3.56
May-21	5.69	2.48	5.09	4.69
Jun-21	5.88	2.67	4.59	3.70
Jul-21	5.60	2.80	4.58	4.74
Aug-21	5.54	2.66	4.21	4.93
Sep-21	5.03	2.23	3.77	4.56

Source: RBI, Bank of Baroda Research

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