GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA
UNSTARRED QUESTION NO: **1817**
TO BE ANSWERED ON THE 27th JULY, 2018/SHRAVANA 05, 1940 (SAKA)

QUESTION
FINANCIAL STABILITY REPORT

1817:

SHRI C.N. JAYADEVAN:
SHRI JYOTIRADITYA M. SCINDIA:
SHRI PANKAJ CHAUDHARY:
SHRI KAMAL NATH:

Will the Minister of FINANCE be pleased to state:

(a) whether Reserve Bank of India (RBI) in its Financial Stability Report has warned that the gross Non-Performing Assets (NPAs) of banks are likely to rise from 15.6 per cent as on March 2018 to 16.3 per cent as on March 2019 under the current macro-economic scenario, if so, the details thereof and the reaction of the Government thereto;
(b) whether on the basis of such report of the RBI, the Government has taken any steps to bring down/check NPAs of banks, if so, the details thereof along the number of Public Sector Banks (PSBs) included in the list of monitoring mechanism of the RBI due to NPAs;
(c) whether the Government propose to issue a white paper on the economic situation in the country, if so, the details thereof, if not, the reasons therefor;
(d) whether the Government has prepared/proposes to prepare a roadmap to bring PSBs out of the crisis of NPA, if so, the details thereof; and
(e) the measures being taken to prevent further deterioration of the banks and the shift of customers from banks to other Non-banking financial institution (NBFCs)?

ANSWER
To be answered by
THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI SHIV PRATAP SHUKLA)

(a): As per RBI's Financial Stability Report (FSR) of June 2018, gross NPAs of scheduled commercial banks (SCBs) are stated to be at 11.6% in March 2018. According to FSR, the baseline scenario for stress testing, on the basis of regression modelling, indicates 12.2% gross NPA level for SCBs in March 2019.
In respect of the above regression modelling output, it is pertinent that out of the existing stock of NPAs, about one-third are currently undergoing timebound insolvency resolution process under the Insolvency and Bankruptcy Code, 2016, in the National Company Law Tribunal (NCLT) and as resolution proceeds through the current financial year (FY), NPAs of banks would correspondingly reduce. However, since regression modelling is based on historical rates and trends, its output does not capture impact of such events under way. Further, the Revised Framework for Resolution of Stressed Assets issued in February 2018 has had significant NPA impact in FY 2017-18, which constitutes the baseline for FY 2018-19. Such baseline effect is not captured in modelling and may elevate modelling output.

(b) to (e): Government has adopted a comprehensive approach for addressing NPAs in the banking system and improving the condition of banks. The gross advances of Scheduled Commercial Banks increased from Rs. 25,03,431 crore as on 31.3.2008 to Rs. 68,75,748 crore as on 31.3.2014, as per the global operations data of the Reserve Bank of India (RBI). Asset Quality Review (AQR) carried out in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of NPAs. PSBs initiated cleaning up and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were reclassified as NPAs and provided for. Such restructuring schemes have been discontinued since. Further, upon, *inter alia,* the net NPA ratio breaching specified monitored threshold, RBI placed eleven PSBs under its Prompt Corrective Action framework, in order to restore their financial health. In parallel, to strengthen PSBs, Government began their recapitalisation under Indradhanush plan announced in August 2015, which envisaged capital infusion of Rs. 70,000 crore by the Government over the four financial years and, to address the high NPAs revealed subsequently by AQR, has followed this up with the announcement and initiation of recapitalisation to the tune of Rs. 2,11,000 crore. This has been accompanied with a PSB Reforms Agenda for systemic improvements in banks. Under the PSBs Reforms Agenda, PSBs have created Stressed Asset Management verticals for stringent recovery, segregated pre- and post-sanction follow-up roles for clean and effective monitoring, initiated creation of online one-time settlement platforms and committed to monitoring large-value accounts through specialised monitoring agencies.

Further, for creating a clean and effective recovery system, Government has enacted the Insolvency and Bankruptcy Code, amended the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act) to make it more effective, established six new Debts Recovery Tribunals and improved the recovery systems within PSBs. Further, the Banking Regulation Act, 1949 has been amended, to provide for authorisation to RBI to issue directions to banks to initiate the insolvency resolution process under IBC. As per RBI's directions, cases have been filed under IBC before the National Company Law Tribunal (NCLT) in respect of 39 large defaulters, amounting to about Rs. 2.69 lakh crore funded exposure (as of December 2017).

Thus, by recognising NPAs transparently, up-front provisioning, recapitalisation for bank strengthening, reforms for comprehensive systemic improvements in banks, and cleaning up lending and recovery systems, Government has put in place a clean and robust banking system.

As regards customer base of banks, the same is reflected in their account base. The number of deposit accounts of scheduled commercial banks has registered an increase of 26.9% from 143.99 crore in March 2015 to 182.67 crore in March 2017. As regards PSBs, for improving their customer attractiveness, they have taken a number of measures under the PSB Reforms Agenda for enhancing access and securing service excellence in banking services through measures such as digital banking, near-home banking, customer comfort, ease of grievance redressal, senior-citizen and differently-abled friendly banking services, proactive delivery of credit through automated processes.

Government presents the Economic Survey in Parliament every year on the economic situation.

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