GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA
UNSTARRED QUESTION NO. 4785
TO BE ANSWERED ON THE 22ND JULY 2019/ ASHADHA 31, 1941 (SAKA)
Performance of PSBs

4785. SHRI SHIVAKUMAR C. UDASI:

Will the Minister of FINANCE be pleased to state:

(a) whether the banking sector is struggling with poor asset quality and weak core capitalization and if so, the details thereof;

(b) whether the performance of Public Sector Banks (PSBs) is lagging behind the private sector banks and if so, the details thereof and the reasons therefor, bank-wise; and

(c) the corrective steps taken/being taken by the Government to improve the performance of the PSBs?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI ANURAG SINGH THAKUR)

(a) to (c): As per Reserve Bank of India (RBI)'s data on global operations, aggregate gross advances of Scheduled Commercial Banks (SCBs) increased from Rs. 25,03,431 crore as on 31.3.2008 to Rs. 68,75,748 crore as on 31.3.2014, while those of PSBs increased from Rs. 18,19,074 crore to Rs. 52,15,920 crore over the same period. As per RBI inputs, the primary reasons for the spurt in stressed assets have been observed to be, *inter-alia*, aggressive lending practices, wilful default / loan frauds / corruption in some cases, and economic slowdown. Asset Quality Review (AQR) initiated in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of non-performing assets (NPAs). As a result of AQR and subsequent transparent recognition by banks, stressed accounts were reclassified as NPAs and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Further, all such schemes for restructuring stressed loans were withdrawn. Primarily as a result of transparent recognition of stressed assets as NPAs, gross NPAs of SCBs rose from Rs. 3,23,464 crore as on 31.3.2015, to Rs. 10,36,187 crore as on 31.3.2018, while gross NPAs of PSBs increased from Rs. 2,79,016 crore to Rs. 8,95,601 crore over the same period (RBI data on global operations). As a result of Government's 4R's strategy of recognition, resolution, recapitalisation and reforms, gross NPAs of SCBs and PSBs have since declined by Rs. 1,02,562 crore and Rs. 1,06,032 crore respectively to Rs. 9,33,625 crore and Rs. 7,89,569 crore respectively as on 31.3.2019 (provisional data). According to RBI's Financial Stability Report (FSR) of June 2019, growth of gross NPAs has decelerated, signalling a turnaround in the NPA cycle and, as per the baseline scenario of macro-stress tests for credit, further decrease in the gross NPA ratio of SCBs and PSBs (in their domestic operations) from 9.3% and 12.6% respectively in March 2019 to 9.0% and 12.0% respectively by March 2020 is projected.

A key reason for higher NPA ratio of PSBs is that while Development Financial Institutions (DFIs) earlier led in high-value core industry and infrastructure project finance, upon withdrawal of DFIs from such financing over the last two decades, PSBs assumed the lead. Since such financing is based on future cash flows that are generated only after project commissioning and repayment is spread over a long period, higher risk is inherent. Higher level of NPAs and relative weakness in financial performance indicators is a reflection of the greater share of PSBs in such lending.

To strengthen and improve the performance of PSBs, Government has taken comprehensive steps under its 4R's strategy that comprises recognising NPAs transparently, resolution and recovering value from stressed accounts through clean and effective laws and processes, recapitalising PSBs and reforming banks through the PSB Reforms Agenda. Steps taken under this strategy include, *inter alia*, the following:

(1) Change in credit culture was effected, with the IBC fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners and debarring wilful defaulters from the resolution process and debarring them from raising funds from the market.
(2) Over the last four financial years, PSBs were recapitalised to the extent of Rs. 3.12 lakh crore, with infusion of Rs. 2.46 lakh crore by the Government and mobilisation of over Rs. 0.66 lakh crore by PSBs themselves.
(3) Key reforms were instituted in PSBs as part of PSBs Reforms Agenda to change credit culture and tighten discipline, institutionalise robust underwriting and monitoring, governance reforms, and leverage the transformation potential of technology.

By addressing the underlying causes behind the build-up of stress in PSBs through comprehensive reform, the risk of recurrence of excessive stress in PSBs has been minimised and PSBs have emerged stronger. Positive impact on PSBs of Government's 4R's approach is visible and includes, *inter alia*, the following:

(i) Robust recovery of Rs. 3,16,479 crore over the last four years, including record recovery of Rs 1,27,987 crore in FY 2018-19, has been effected.
(ii) Assets quality has improved as reflected in 45% year-on-year reduction in slippage into NPAs in FY 2018-19, and 63% reduction in 31 to 90 days overdue corporate accounts by March 2019 from their peak in June 2017.
(iii) Provision coverage ratio has risen steadily from 49.31% at time of AQR to a healthy level of 74.22% in March 2019.
(iv) With substantial cleaning up accompanied by capitalisation of banks, the domestic credit growth of PSBs has risen to 10.2% in FY 2018-19.

Banks are required to maintain a Capital to Risk-weighted Assets Ratio (CRAR) of 10.875% (inclusive of Capital Conservation Buffer) as on date. As per RBI's FSR of June 2019, as on 31.3.2019, the CRAR for SCBs was 14.3%.

Note: In the reply, the figures for PSBs include those for IDBI Bank Limited, which has been recategorised by RBI as a private sector bank with effect from 21.1.2019.

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