RBI’s report to Standing committee on Finance

Why in news?

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The RBI recently made its submissions to the Standing committee on Finance to brief on the state of the economy.

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What are the submissions made?

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- **On NPA** - Both gross and net non-performing assets (NPAs) of scheduled commercial banks have reduced recently since their peak in March 2018.
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- Also, the proportion of NPAs from Public sector banks has marginally come down from 86.6% to 85.9%. [Image]
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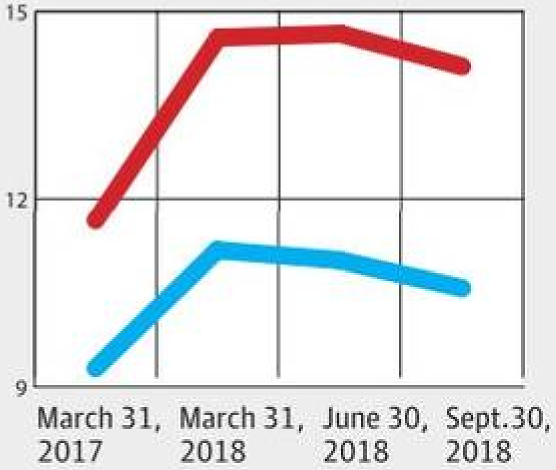
Positive trend

Gross and net NPAs of banks have reduced due to the efforts of the government and central bank.

GROSS NPAS (%)



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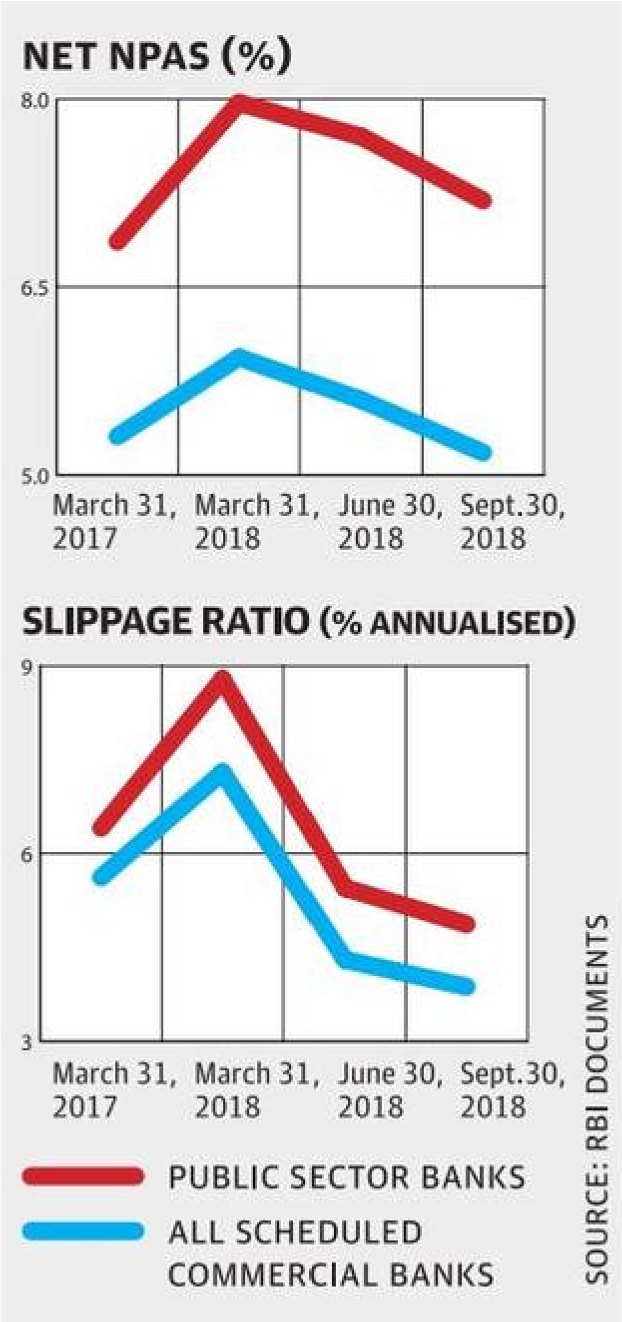

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- However, the profitability of banks was still impacted due to a decline in earnings from loan assets and on higher provisioning required due to deterioration in asset quality.
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- The slippage ratio (i.e. the percentage of fresh NPAs as percentage of standard advances) is also declining which reflects improving credit discipline in the banks.
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- **On fiscal health** - The risks that could pose a challenge to the government's commitment to meet the FRBM targets are –
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1. Oil prices
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2. Uncertainty over the effect of the MSP hike
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3. Revenue impact of the lower-than-expected GST collections
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4. Cut in excise duty on fuel
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5. Decline in the gross financial savings of households
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6. HRA revisions by the states
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7. Farm loan waivers by states
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- Thus, the central government debt to GDP ratio target of 40% and the general government (including states) debt to GDP ratio target of 60% by 2024-25 should be focussed upon for achieving the revised FRBM targets.
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- **On demonetisation** – It caused a shortfall in the government's non-tax revenue which has impacted the surplus that RBI could transfer to the Centre.
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- This is mainly because of the rapid pace of remonetisation and increased cash in circulation(CIC), which accounted for 101.8% of its pre-demonetisation levels in March 2018.
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- However, there is a sharp increase on the volume of digital transactions, which grew from about 900 million transactions in October 2016 to about 1,750 million in June 2018.
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- Also, the monetary transmission from the policy rate to the banks' deposit and lending rates improved during 2017-18 due to the demonetisation-induced liquidity.
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- **On credit flow** - Total credit flow from banks to the commercial sector grew at 15.6%, especially the adjusted non-food bank credit.
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- Adjusted non-food bank credit includes non-food bank credit and total non-statutory liquidity ratio (SLR) investments of banks in commercial papers,

shares and bonds/debentures.
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- This will ease the credit flow and increase private investments in the country.
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What is the stand of the RBI Governor?

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- RBI's autonomy is important to protect depositors' interests
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- Monetary policy has to be the exclusive domain of the RBI
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- RBI's reserves are central to maintain its AAA rating.
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What should be done?

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- Profitability of banks will continue to remain under stress as they provide for the bad loans in their books and/or take hair-cuts on recoveries through the insolvency process.
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- Thus, banks need to monitor their small loans portfolio made under the Pradhan Mantri Mudra Yojana.
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Source: The Hindu

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