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Complacent banks will turn dinosaurs this decade

By Tamal Bandyopadhyay

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In the new decade, the scene will change because the banks till recently had been challenged by the fintechs, but the techfins have now entered the arena, observes Tamal Bandyopadhyay.

Illustration: Uttam Ghosh/Rediff.com

After reviewing the 'current liquidity and financial conditions', the Reserve Bank of India recently announced yet another round of Operation Twist -- a Rs 10,000 crore simultaneous purchase and sale of government securities on January 7.

Rest assured that the Indian version of quantitative easing is here to stay in the New Year to generate liquidity, manage the yield at both the shorter as well as longer end, pare the cost of government borrowing and help banks reap treasury profits.

Among many new initiatives, the Indian central bank launched Operation Twist in December 2019.

Just ahead of the latest announcement on the last day of 2020, an RBI working paper, *Measuring Trend Inflation in India*, co-authored by a deputy governor and member of the central bank's rate-setting body, Michael Patra, pitched for maintaining the inflation target unchanged at 4 per cent.

There has been speculation on raising the flexible inflation target (4 per cent with a 2 per cent band on either side), against the backdrop of persistently high inflation.

For the record, the retail inflation has been crossing the upper end of the band since December 2019, barring just one month (March 2020: 5.84 per cent).

Before declining to 6.94 per cent in November 2020, it rose to 7.61 per cent in October 2020, the highest in six years.

On the face of it, an ultra-loose monetary policy, despite rising inflation and green shoots of recovery, is puzzling. But globally all central banks have been doing so.

Indeed, the RBI doesn't want to rock the boat and will continue to buy time for growth in 2021 but one doesn't need to be a soothsayer to say that unwinding of easy liquidity will be the biggest challenge for the Indian central bank in the New Year.

In 2008, after the collapse of iconic US investment bank Lehman Brothers Holding Inc, which plunged the world into an unprecedented economic crisis, the RBI was able to ward off its impact on India by flooding the system with liquidity and bringing down the policy rate to a historic low.

The RBI was aggressive in loosening the policy but, for unwinding, it took 'baby steps', leading to a rise in inflation.

Another trend under all analysts' lens will be the quality of loan assets. In the beginning of 2020, many believed that the worst was behind the Indian banking system -- after bad loan recognition, the banks were entering into the phase of recovery.

Since most banks have made hefty provisions for bad loans, every bit of recovery would add to their profits, strengthening their balance sheets and encouraging them to lend.

But the pandemic has upset all calculations. A window of loan restructuring followed a six-month moratorium on loan repayment.

Most bankers have been claiming a dramatic rise in repayments and very few loan recast proposals but it is too early to feel excited.

The gross non-performing assets ratio of the banking system has been on a decline -- from 9.1 per cent in March 2019 to 8.2 per cent in March 2020 and 7.5 per cent in September 2020.

The heap of bad loans is bound to rise, but how much is the question. Interlinked with this is the banks' appetite for credit growth.

From April 2020 till December 18, 2020, the credit growth has been a measly 1.7 per cent against 1.8 per cent in the year-ago period. Are the banks prudent or risk averse? We will know in 2021.

Beyond 2021, the theme of the new decade for Indian banking will be disruptions.

In 2009, Paul Volcker, former chairman of the US Federal Reserve, had said that the only relevant financial innovation in the previous two decades had been the ATM machine.

Since then, a lot has happened. In India, demonetisation in December 2016 gave a big boost to digitalisation, but the momentum was lost after some time.

The pandemic has brought the digitalisation wave back to the finance shore, prompting Infosys Chairman Nandan Nilekani to say it has accelerated the digitalisation of the economy from years to weeks.

The bankers, so far, have not been afraid of losing relevance and becoming dinosaurs -- something which then Microsoft Corp Co-founder Bill Gates had warned in July 1994.

In the new decade, the scene will change because the banks till recently had been challenged by the fintechs, but the techfins have now entered the arena.

Fintech is a space where financial services (such as mobile banking) are delivered through a better-use experience, using cutting-edge technology, while techfin refers to technology solution firms -- such as Amazon, Google and Facebook, among others -- launching a new way to deliver financial services.

Unlike fintech, the techfins have their own customers and hence they do not need to ride on a bank's network, customer base and merchant relationships.

Simply put, those banks that remain complacent, bragging about their captive customer base, may turn dinosaurs this decade.

It is also time for both the RBI and the commercial banks to introspect: Has India let its banking system down or is it the other way round? Both must share the blame.

The banking regulator has not encouraged competition on the banking turf and hence financial repression continues.

The banks, too, have not explored the tremendous opportunities that Asia's third-largest economy offers.

Finally, after five decades of bank nationalisation, the government, as the majority owner of a large part of the banking system, must decide on whether to run the banks as an agency for social good or a commercial entity.

There are options. For instance, the government can allow 'fit and proper' Indian private entities and foreign institutions, including private equity, to invest and own 26 per cent in banks.

Anyway, such entities already own even higher stakes in the shadow banking system.

It can also create a banking investment fund on the lines of the National Investment and Infrastructure Fund -- an investment platform that has brought together the Government of India and international investors -- for investing in banks.

Consolidation reduces the number of banks, but not the government share in the banking industry.

Unlike Air India, which flies people, banks deal with public money. They need to be treated differently.

A few of them can be kept under government control to address possible market failures, while the government stakes in others can be sold.

The sell-off will also help manage the fiscal deficit beside strengthening the banking system.

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Tribunal lets off SBI, LIC, BoB with a warning

PALAK SHAH | January 12, 2021 BUSINESSLINE

Converts SEBI's ₹10-lakh penalty on each of them into a warning

A ₹10-lakh penalty each on two State-owned banks and an insurance company, imposed by market regulator SEBI, has been converted into a mere warning by the Securities Appellate Tribunal (SAT). The tribunal reasoned that it could not find any "justifiable reason" to impose the monetary penalty and just a 'warning' was sufficient.

The SEBI has imposed the fine on State Bank of India (SBI), Life Insurance Corporation (LIC) and Bank of Baroda (BoB) for violating shareholding norms for mutual funds (MFs). According to SEBI norms, a 'sponsor' of a mutual fund, its associates, or a group company, cannot have 10 per cent or more shareholding or voting rights in 'another' asset management company (UTI) or an MF trustee. All the three entities are sponsors of leading MFs but also held a large stake in UTI AMC for several years . The SEBI had given them time till March 2019 to bring down their stake in UTI AMC but they could not comply with the deadline, following which SEBI issued an order last year.

"Every technical violation need not be visited with a monetary penalty. In these matters a warning is sufficient," the SAT said.

The three entities argued that disinvestment permission could be obtained only in the month of April 2019 after which the entire disinvestment process had to be completed and the IPO process for UTI AMC was floated on September 29, 2020. It is in this context that SEBI had granted them time till December 31, 2020 and the appellants have divested their excess holding to level of 9.9 per cent each as on October 12, 2020. These entities sold their stake three months before the extended time granted by SEBI. But still SEBI fined them.

SEBI counsel Shyam Mehta argued that the extended time was not an "exoneration of the appellants from their violation as violations were factual and admitted".

SAT also lectured the entities that governmental entities, including public sector undertakings, need to develop protocols for coming out from being prisoners of protracted procedures for complying with applicable laws and regulations timely, because as legal entities accountability falls on them.

Industry Body Calls For Creating Multiple Bad Banks To Buy Bad Loans In Budget 2021

Banks may see bad loans double despite signs of an improvement in the economic impact of the Covid-19 pandemic, a report from RBI said

Abhishek Vasudev January 12, 2021 NDTV

Budget 2021: CII has recommended government to create multiple bad banks.

Banks may see bad loans double despite signs of an improvement in the economic impact of the Covid-19 pandemic, a report from the Reserve Bank of India's Financial Stability and Development Council said on Monday. The gross non-performing assets of banks (NPAs) may increase from 7.5 per cent in September 2020 to 14.8 per cent under a severe stress scenario. Even under a baseline scenario it may rise to 13.5 per cent by September 2021, the council said.

Meanwhile, industry body Confederation of Indian Industry (CII), in its Pre-Budget Memorandum 2021-22, has made a recommendation to the government to create multiple bad banks by allowing Alternate Investment Funds (AIFs) to buy bad loans.

"The financial sector, particularly the lending side, is a critical artery of the economy and its robust operations are a key pillar in India's journey to a $5 trillion economy. It is worthwhile to consider whether it is a time to review are financial structure in a manner that is comprehensive and can support the economic needs of India's real sector," CII said in its Pre-Budget Memorandum 2021-22.

"Hitherto the NPAs have largely been sold to Asset Reconstruction Companies (ARCs) only and mostly not for cash consideration which means that the sale price was not a 'true sale' since ARCs could pay through 'Security receipts' (SR). SR is basically an instrument wherein the payment is made only upon recovery of some money — a sort of participatory note. Based on recent RBI data on outstanding SRs, industry estimates the net recovery at only around 10-12 per cent. The outstanding SRs is ₹ 1.46 lakh crore. This represents the 'non-cash' consideration received by banks against sale of loans," CII said.

RBI sets up working group to regulate e-platforms, apps offering credit and promote digital lending

Sandeep Soni | Jan 13, 2021

THE FINANCIAL EXPRESS

The move is aimed at regulating the sector, which has seen a large number of online lending platforms, majority startups, cropping up in the recent past across models including peer-to-peer, pay later, invoice financing, bank-led digital models, marketplaces, and more, adopted by consumers and enterprise-facing businesses

The RBI had in December cautioned small businesses and individuals against taking loans through unauthorised digital lending apps

Amid growing concern around possibilities of digital lending-based financial frauds, the Reserve Bank of India (RBI) on Wednesday set-up a Working Group (WG) "to study all aspects of digital lending activities in the regulated financial sector as well as by unregulated players," the central bank said. The move is aimed at regulating the sector, which has seen a large number of online lending platforms, majority startups, cropping up in the recent past across models including peer-to-peer, pay later, invoice financing, bank-led digital models, marketplaces, and more, adopted by consumers and enterprise-facing businesses. "Recent spurt and popularity of online lending platforms/ mobile lending apps ('digital lending') has raised certain serious concerns which have wider systemic implications," the RBI noted.

The WG would look to evaluate digital lending activities and assess the penetration and standards of outsourced digital lending activities in RBI regulated entities, according to an RBI statement. It would also identify risks posed by unregulated digital lending to financial stability, unregulated entities, and consumers will suggest regulatory changes, if any, to promote orderly growth of digital lending. RBI said that the WG will recommend measures, if any, for the expansion of specific regulatory or statutory perimeter and suggest the role of various regulatory and government agencies. Other terms of reference for the WG included recommending a robust Fair Practices Code for digital lending players, insourced or outsourced, suggesting measures for enhanced consumer protection; and recommending measures for robust data governance, data privacy, and data security standards for deployment of digital lending services.

The WG will comprise of four internal members of RBI including Executive Director Jayant Kumar Dash, Ajay Kumar Choudhary, Chief General Manager-in-Charge, Department of Supervision, P. Vasudevan, Chief General Manager, Department of Payment and Settlement Systems, and Manoranjan Mishra, Chief General Manager, Department of Regulation. External members will include Vikram Mehta, Co-founder, of Monexo

Fintech, and Rahul Sasi, Cyber Security Expert & Founder of CloudSEK. The WG will have to submit its report within three months.

"Considering the importance of digital lending towards the financial inclusion in the Indian economy on one hand, and the regulations and best practices required to ensure a transparent & favourable ecosystem for all stakeholders on the other, a move like this from RBI is much appreciated," said Madhusudan Ekambaram, Co-Founder & CEO, KreditBee and Co-Founder, Fintech Association for Consumer Empowerment.

The central bank had in December 2020 cautioned small businesses and individuals against taking loans through unauthorised digital lending apps and had urged borrowers to verify the antecedents of the lenders offering loans online or through mobile apps. In June as well, following complaints against online lending platforms with respect to high-interest rates, lack of transparency in methods to calculate interest, unauthorized use of user data, and more, RBI had said that NBFCs and banks need to state the names of online platforms they are working with.

The digital lending market in India has grown from $33 billion in value FY15 to $150 billion in FY20 and may hit the $350-billion mark by FY23, according to Statista. Among the leading players in the market include Capital Float, Zest Money, Indifi, KredX, BharatPe, Lendingkart, Paisabazaar, and more.

RBI sets up working group to identify risks posed by unregulated digital lending

Our Bureau - Mumbai | January 13, 2021

THE HINDU BusinessLine

The Reserve Bank of India (RBI) has set up a Working Group (WG) to study all aspects of digital lending activities in the regulated financial sector as well as by unregulated players, in a bid to put in place an appropriate regulatory approach.

This move comes in the backdrop of the recent spurt and popularity of online lending platforms/ mobile lending apps raising certain serious concerns which have wider systemic implications, the central bank said.

The constitution of the WG should also be seen in the context of agents of China-based money lending apps being arrested in Hyderabad in the last one month or so for harassing borrowers for repayments.

The six-member WG, comprising four senior RBI officers and two external members, will evaluate digital lending activities and assess the penetration and standards of outsourced digital lending activities in RBI-regulated entities.

The group, headed by Jayant Kumar Dash, Executive Director, RBI, will identify the risks posed by unregulated digital lending to financial stability, regulated entities and consumers.

As per the terms of reference, the WG is expected to suggest regulatory changes, if any, to promote orderly growth of digital lending; and recommend measures, if any, for expansion of specific regulatory or statutory perimeter, and suggest the role of various regulatory and government agencies.

The group is expected to suggest a robust Fair Practices Code for digital lending players, insourced or outsourced; and measures for enhanced Consumer Protection. Further, it will also recommend measures for robust data governance, data privacy and data security standards for deployment of digital lending services.

The group has been advised to submit its report in three months.

The central bank observed that while penetration of digital methods in the financial sector is a welcome development, the benefits and certain downside risks are often interwoven in such endeavours.

"A balanced approach needs to be followed so that the regulatory framework supports innovation while ensuring data security, privacy, confidentiality and consumer protection," the RBI said.

RBI imposes Rs.2-cr penalty on Deutsche Bank

Our Bureau - Mumbai | January 12, 2021

BusinessLine

The Reserve Bank of India (RBI) has imposed Rs.2-crore monetary penalty on Deutsche Bank for non-compliance with certain provisions of directions relating to 'Reserve Bank of India (Interest Rate on Deposits) Directions, 2016'.

The central bank, in a statement, said this action is based on the deficiencies in regulatory compliance, and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers.

"The penalty has been imposed in exercise of powers vested in RBI under the provisions of …the Banking Regulation Act, 1949," the statement said.

The RBI observed that the statutory inspection of the bank with reference to its financial position as on March 31, 2019, and the Risk Assessment Report pertaining thereto revealed, inter-alia, non-compliance with above-mentioned directions issued by the RBI.

"In furtherance to the same, a notice was issued to the bank advising it to show cause as to why penalty should not be imposed on it for non-compliance with the directions.

"After considering the bank's reply to the notice, oral submissions made in the personal hearing and examination of additional submissions, the RBI concluded that the charge of non-compliance with aforesaid RBI directions was substantiated and warranted imposition of monetary penalty," the central bank said.

Dues past 90 days higher in MSME sector than in retail

Our Bureau Mumbai | January 12, 2021

THE HINDU BusinessLine

This is despite the regulatory reliefs provided during the pandemic

The over 90 days past due (DPD) position of banks and non-banking financial companies (NBFCs) indicate much higher overdue levels in the micro, small and medium enterprise (MSME) sector than in the retail sector, even with the camouflage of regulatory reliefs, according to the Reserve Bank of India's Financial Stability Report (FSR).

Ninety DPD refers to payments that are late by more than 90 days. Such borrowal accounts get classified as sub-standard, necessitating provisioning by banks and NBFCs.

The 90 DPD balances for MSME sector increased from 11.7 per cent in March 2020 to 12.5 per cent in June 2020. This, however, declined to 12 per cent in September 2020.

The 90 DPD position for the retail sector has moved up from 3.2 per cent in March 2020 to 3.4 per cent in June 2020. It edged up further to 3.5 per cent in September 2020.

"The 90 days past due position has remained stable (in the case of the consumer/ retail credit) but may not reflect the real vulnerability of the portfolio, in view of the regulatory reliefs granted following the pandemic," the report said.

Wholesale exposure

An examination of the transition of a constant sample of non-public sector undertaking (non-PSU) non-financial wholesale performing exposures to special mention account (SMA) status between August and November 2020 reveals accumulation of outstanding in SMA-0/1/2 categories, although the aggregate outstanding has remained flat, the report said.

'SMA-0' classification means principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress. 'SMA-1' classification means principal or interest payment overdue between 31-60 days. 'SMA-2' classification means principal or interest payment overdue between 61-90 days.

"Admittedly, the asset classification standstill inhibits the true underlying economic categorisation of assets, although the incipient tilt is towards worsening, as indicated by the growth in balances in the next worse categories for each cohort," FSR opined.

Corporate funding

The report observed that domestically, corporate funding has been cushioned by policy measures and the loan moratorium announced in the face of the pandemic, but stresses would be visible with a lag. This has implications for the banking sector as corporate and banking sector vulnerabilities are interlinked, it added.

FSR underscored that: "While the post-global financial crisis prudential measures have ensured stronger capital buffers in the banking sector, which have stood banks in good stead in the face of the pandemic, the imminent crystallisation of financial stress may test their resilience, especially for individual banks which, in turn, can have systemic implications."

Risk aversion, muted demand continues to weigh on wholesale credit growth

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THE HINDU BusinessLine

Credit offtake to corporates that remained subdued in the first half of fiscal 2020-21 was weak in the third quarter, too (up to November 2020), pointing to risk aversion and muted demand weighing on the outlook, according to the RBI's Financial Stability report.

Wholesale credit declined by 1.67 per cent q-o-q in the September quarter and by a further 1.36 per cent in November (over September) across all bank groups. The decline was sharper in PSBs at 2.4 per cent in November against the 1.28 per cent fall for private banks.

From the corporates side, credit growth in respect of public sector undertakings (PSUs) was comparatively resilient during the pandemic, according to the RBI report. While wholesale credit for PSU entities declined by 1 per cent in November (over September), for non-PSU entities, it fell by a sharper 2.4 per cent.

Within the non-PSU companies, it appears that the deleveraging (q-o-q) was sharper at rating grades 'AA and above' during 2020-21 across both PSBs and private banks. This reflects a reversal from the position in March 2020 when a rush to access credit was observed in the early phase of the pandemic breakout, according to the RBI. For instance, in March, wholesale credit grew by 5.2 per cent and 7.68 per cent q-o-q for AA and above companies across private and PSBs,respectively. This growth turned to a negative 5.8 per cent and 6.7 per cent in the September quarter for the corresponding bank groups and further to negative 7.48 per cent in November for private banks.

Deleveraging also seems to have been led by large wholesale borrowers even as relatively smaller borrowers (loans size: Rs.5 to Rs.100 crore) continued to record sustained credit appetite, as per the RBI report.

The report states that while the asset classification standstill inhibits the true categorisation of assets, the early tilt is towards worsening. With stress tests pointing to a deterioration in asset quality of banks, early identification of impairment and aggressive capitalisation are imperative for supporting credit growth across various sectors, alongside pre-emptive strategies for dealing with potential NPAs.

‘42% of firms will continue to invest in cybersecurity’

SPECIAL CORRESPONDENT
BENGALURU, JANUARY 13, 2021
THE HINDU

Data safety a key concern in 2021: Dell

Security is no more a choice, but a necessity for CTOs and CIOs, and therefore enterprises in 2021 will aggressively embrace digital transformation to protect and manage critical data, Dell Technologies said in its ‘Data Protection Trends for 2021’ report.

Data protection has transformed itself into a top priority and organisations are investing heavily to safeguard their IT architecture against any kind of cyber threat or malware attack.

In 2021, some 42% of organisations in India and globally, will continue to invest in cybersecurity and privacy solutions to steer away from the rising cyberattacks in the era of remote working, as per the data protection trends released by Dell.

According to the report, to stay competitive and continue with their growth trajectory amid the current situation, organisations need to digitally transform their IT infrastructure.

They need to accelerate their data mining and extract maximum insights available from the collected data sets.

Industrial production shrinks 1.9% in November; enters negative zone after 2 months

PTI
NEW DELHI, JANUARY 12, 2021
THE HINDU

Industrial production contracted by 1.9% in November, entering the negative territory after a two-month gap, mainly due to poor showing by manufacturing and mining sectors, official data showed on Tuesday

Mining sector output too witnessed a decline, shrinking 7.3%. However, power generation grew 3.5% in the month under review

Industrial production contracted by 1.9% in November, entering the negative territory after a two-month gap, mainly due to poor showing by manufacturing and mining sectors, official data showed on Tuesday.

The manufacturing sector — which constitutes 77.63% of the index of industrial production (IIP) — recorded a contraction of 1.7% in November 2020, as per data released by the National Statistical Office (NSO).

Mining sector output too witnessed a decline, shrinking 7.3%. However, power generation grew 3.5% in the month under review.

The IIP had grown by 2.1% in November 2019.

Industrial production had plunged 18.7% in March last year following the COVID-19 outbreak and remained in the negative zone till August 2020.

With the resumption of economic activities, factory output posted a flat growth of 0.48% in September.

The IIP growth for October has been revised upwards to 4.9 per cent from last month's provisional estimates of 3.6%.

The government had imposed a lockdown to contain the spread of COVID-19 infections on March 25, 2020.

With the gradual relaxation of restrictions, there has been a relative improvement in the economic activities by varying degrees as well as in data reporting, the Ministry of Statistics and Programme Implementation had said in a statement issued in November.

The ministry had also given a disclaimer that it may not be appropriate to compare the IIP in the post-pandemic months with the data for months preceding the COVID-19 outbreak.

The manufacturing sector had recorded a growth of 3% in November 2019.

Similarly, mining sector output grew 1.9%, but electricity generation shrank by 5% in November 2019.

The output of capital goods, which is a barometer of investment, fell by 7.1% in November 2020 as against a contraction of 8.9 per cent earlier.

Consumer durables output fell by 0.7%, compared to 1.4% contraction in November 2019.

Consumer non-durable goods production fell by 0.7%, compared to a growth of 1.1% a year ago.

The IIP for the April-November period has contracted by 15.5%, according to the data. It had registered a flat growth of 0.3% during the same period last fiscal.

Stretched valuations threaten stability: Shaktikanta Das

SPECIAL CORRESPONDENT
MUMBAI, JANUARY 11, 2021
THE HINDU

RBI's Das warns disconnect between markets and real economy pose risks to the financial system

Reserve Bank of India (RBI) Governor Shaktikanta Das has flagged the growing disconnect between exuberant equity markets and real economic activity and warned that the 'stretched valuations of financial assets' threaten overall financial stability.

"The disconnect between certain segments of financial markets and the real economy has been accentuating in recent times, both globally and in India," Mr. Das wrote in his foreword to the RBI's biannual Financial Stability Report (FSR), which was released on Monday.

"Stretched valuations of financial assets pose risks to financial stability," he cautioned.

Pointing to the interconnected nature of the financial system, the RBI Governor urged banks and financial intermediaries to be cognisant of the risk. India's stock markets have been on a tear since plunging to their lowest levels in more than three years in March in the wake of the COVID-19 pandemic's outbreak and ensuing lockdowns.

As of Monday's close, the benchmark S&P BSE Sensex had appreciated almost 90% from its March 23, 2020, low.

The pandemic could also trigger balance sheet impairments and capital shortfalls, especially as regulatory reliefs are rolled back, Mr. Das cautioned.

'Obscure true picture'

"Congenial liquidity and financing conditions have shored up the financial parameters of banks, but it is recognised that the available accounting numbers obscure a true recognition of stress," Mr. Das wrote.

As per the FSR, the gross non-performing assets (GNPA) and net NPA (NNPA) ratios of banks fell to 7.5% and 2.1%, respectively, by September 2020. But the RBI warned that the withdrawal of pandemic-triggered reliefs could see a jump in bad loans at lenders.

"The improvements were aided significantly by regulatory dispensations extended in response to the COVID-19 pandemic. Macro-stress tests for credit risk show that SCBs' GNPA ratio may increase from 7.5% in September 2020 to 13.5% by September 2021 under the baseline scenario," the RBI observed.

'Ratio may escalate'

"If the macroeconomic environment deteriorates, the ratio may escalate to 14.8% under the severe stress scenario. These projections are indicative of the possible economic impairment latent in banks' portfolios," it said.

"Consequently, maintaining the health of the banking sector remains a policy priority and preservation of the stability of the financial system is an overarching goal," Mr. Das said.

The RBI Governor also said the expansion of the government's market borrowing programme had imposed additional pressure on banks.

As per the FSR, the aggregate banking sector credit remained subdued, pointing to vestiges of risk aversion even as aggregate demand in the economy is mending and reviving.

Although a recovery in economic activity from the lows of March and April 2020 was under way, it was far from being entrenched and output remained below pre-pandemic levels.

Bank credit growth (Y-o-Y), which had declined to 5.7% in 2019-20, remains sluggish; on the other hand, deposit growth has remained robust in double digits, reflecting precautionary saving in the face of high uncertainty, the RBI said.

Return on assets (RoA) and return on equity (RoE) for SCBs have improved across all bank groups and capital to risk-weighted assets ratios (CRARs) improved by 110 bps over March 2020 levels to 15.8% in September 2020.

Stress tests also indicate that SCBs have sufficient capital at the aggregate level even in the severe stress scenario but, at the individual bank level, several banks may fall below the regulatory minimum if stress aggravates to the severe scenario.

The need of the hour was for banks to assess their respective stress situations and follow it up with measures to raise capital proactively. At the aggregate level, the CRAR of scheduled urban co-operative banks (SUCBs) deteriorated from 9.7% to 9.24% between March 2020 and September 2020.

NBFCs' credit grew at a tepid pace of 4.4% on an annual (Y-o-Y) basis as compared with the growth of 22% a year earlier

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