RBI FINANCIAL STABILITY REPORT (FSR)

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Emerging stress in MSMEs and Consumer loans

While RBI has lowered its banking sector stress projections, it has pointed out rising stress in MSME loans of PSBs and consumer credit in case of PVBs and NBFCs. Economy is showing signs of recovery which may lead to lower stress build up. However, FSR alludes to new risks emerging from another wave, rising international commodity prices and inflationary pressures therein. We expect GDP growth at 9.7% in FY22 and RBI to normalize monetary policy in Q4FY22 by raising reverse repo rate.

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Signs of recovery: RBI exudes optimism on recovery in FSR with COVID-19 infections falling in India and pace of vaccinations picking up. Global financial markets are upbeat on reflation trade. Indian equity markets are increasingly confident of a recovery. However, FSR alludes to emerging risks in the form of future waves of the pandemic, international commodity prices and inflationary pressures, global spillovers amid high uncertainty, and rising incidence of data breaches and cyber-attacks. Accordingly, sustained policy support remains vital.

Lower stress projections…: RBI clearly states that the dent on balance sheets and performance of financial institutions in India has been much less than what was projected earlier, although a clearer picture will emerge as the effects of regulatory relief fully work their way through. GNPA ratio of SCBs is expected to increase to 9.8% in Mar'22 (base case) from 7.48% in Mar'21. In the previous issue of FSR, RBI had projected GNPA ratio to increase to 13.5% in Sep'21 (7.5% in Sep'20). Now even under severe stress, GNPA ratio can increase only to 11.22% in Mar'22. Even capital position is expected to be better with CRAR of SCBs at 15.54% in Mar'22 (base case) from 15.84% in Mar'21. It was projected at 14% in Sep'21 earlier.

…however, stress is building up: Despite restructuring, stress in MSME portfolio of PSBs has inched up. Outstanding loans in SMA0 bucket are at 10.6% (7.8% in Dec'20), SMA1 are at 9.2% (5.6% in Dec'20) and NPA ratio has increased to 15.9% (13.1% in Dec'20). Even in consumer credit, delinquency ratios have seen a large increase for PVBs at 2.4% in Jan'21 (1.2% in Jan'20) and NBFC/HFCs at 6.7% in Jan'21 (5.3% in Jan'20). In wholesale credit, out of Rs 23.09tn outstanding in Sep'20, 7% is now in SMA0 and 2.8% is in SMA1 in Apr'21.

Economy to rebound: Economic impact of second wave is less severe than first wave. Our economy tracker is 8% below Feb'20 baseline compared with 19% dip in May'21. Recent high frequency indicators show a steady turnaround. We expect GDP growth at 9.7% in FY22 led by recovery in industrial activity and normalization of services (post vaccination). RBI is likely to look at normalizing monetary policy in Q4FY22 by reducing gap between repo and reverse repo rates.

Key highlights

- Stress test shows GNPA ratio to rise to 9.8% in Mar'22, under baseline scenario.
- Emerging stress in MSME portfolio of PSBs.
- Consumer credit stress rising for PVBs and NBFC/ HFCs.
- Macroeconomic risks in the form of another wave, rising commodity prices and inflation.

Fig 1- RESULTS OF MACRO STRESS TEST FOR FY22

Indicators	Baseline	Medium	Severe
GDP	9.5	6.5	0.9
CPI	5.1	6.8	9.4
Combined Gross Fiscal Deficit ratio	11.9	12.9	14.4
WALR	9.2	9.8	10.7
Current Account balance ratio	(0.1)	(1.2)	(2.8)
GNPA	9.8	10.36	11.22
CRAR	15.54	14.54	13.28

Source: RBI, Bank of Baroda Research

Fig 2- SMA DISTRIBUTION OF MSME PORTFOLIO OF PSBS (%)

Quarter	SMA-0	SMA-1	SMA-2	NPA
Mar'20	6.9	5.7	4.2	18.2
Jun'20	18.2	2.2	2.6	13.7
Sep'20	13.4	3.2	2.6	14.9
Dec'20	7.8	5.6	7.8	13.1
Mar'21	10.6	9.2	3.6	15.9

Source: RBI, Bank of Baroda Research

Fig 3- CONSUMER CREDIT DELINQUENCY RATES (90 DPD+)

Months	PSB	PVB	NBFC/HFC
Jan'20	2.9	1.2	5.3
Feb'20	2.9	1.1	5.2
Mar'20	3.0	1.0	4.8
Apr'20	3.2	1.1	5.2
May'20	3.2	1.0	5.2
Jul'20	2.8	1.1	5.1
Aug'20	2.7	1.1	5.2
Sep'20	2.8	1.4	5.4
Oct'20	2.6	1.4	5.3
Nov'20	2.2	1.6	5.8
Dec'20	2.0	2.2	6.3
Jan'21	1.8	2.4	6.7

Source: RBI, Bank of Baroda Research

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