

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3969
ANSWERED ON:20.03.2015
DETERIORATING ASSET QUALITY
Hari Shri G.

Will the Minister of FINANCE be pleased to state:

- (a) whether the banking sector is faced with downgrading of rating as deteriorating asset quality would put further pressure on its finances, make international operations and funding much more difficult during 2015 according to a report of ASSOCHAM;
- (b) if so, the details thereof and reaction of the Government thereto;
- (c) whether the banking sector would attract additional provisioning which would further put pressure on the profits of banks which are already under tremendous stress; and
- (d) if so, the details thereof?

Answer

The Minister of State in the Ministry of Finance (SHRI JAYANT SINHA)

(a) : Yes, a ASSOCHAM study dated December, 2014 states that deteriorating asset quality will put further pressure on banks during 2015 leading to downgrading of rating.

(b) The study report states that Gross NPA will increase for Public Sector Banks (PSBs) to 4.4 – 4.7% and for banks as a whole by 4.0 – 4.2%. The paper states that Standard Assets incremental restructuring will continue and not much headway can be expected in sales of assets to ARCs after the guidelines have been changed. Return on Assets is likely to remain below 1.1%.

It is correct that during Financial Year 2014-15, the stressed assets have increased as compared to the position obtaining in March, 2013. However, the overall profitability, measured by Net Profit, has improved by 10.70% on Y-o-Y basis as on December 2014 for PSBs inspite of 'Provisions for Non-Performing Assets' increasing by 23.81% in Y-o-Y basis. Further the government is infusing Rs.6,990 crore as equity capital in PSBs before 31st March, 2015 to strengthen the capital adequacy ratio of PSBs.

(c) & (d): Additional provision will be required by the banks only on account of non-availability of forbearance for standard restructured assets. The increased requirement will be for assets restructured on or after 1st April, 2015 which are under standard category. The provisioning requirement for existing assets will continue to remain same as long as their Income Recognition and asset classification (IRCA) status does not deteriorate.

Reserve Bank of India has analysed resilience of the Banking System and observed that there are serious concerns on deterioration of asset quality due to global and domestic economic conditions; even though some comfort is provided by the strong capital adequacy of banks, which may ensure that the banking system remains re-silent even in the unlikely contingency of having to absorb the entire existing stock of Non-Performing Assts.