

RBI releases Financial Stability Report

In its recently released Financial Stability Report, January 2021, the RBI opines that “Macro stress tests incorporating the first advance estimates of gross domestic product (GDP) for 2020-21 released on January 7, 2021 indicate that the gross non-performing assets (GNPA) ratio of all Scheduled Commercial Banks (SCBs) may increase from 7.5 per cent in September 2020 to 13.5 per cent by September 2021 under the baseline scenario; the ratio may escalate to 14.8 per cent under a severe stress scenario. This highlights the need for proactive building up of adequate capital to withstand possible asset quality deterioration.”

Highlighting the global impact of the COVID-19 pandemic, the report says, “As global economic activity makes a hesitant and uneven recovery from the unprecedented COVID-19 pandemic on the back of extraordinary policy responses by monetary, fiscal and regulatory authorities, the focus is shifting to developing policies and strategies to nurse deleteriously affected sectors back to health and normalcy...

Global economic activity remained besieged by the COVID-19 pandemic, more recently by the second wave that has forced re-clamping of lockdowns across Europe and a resurgence of infections in the US. This is casting a shadow on the strong rebound of economic activity in Q3:2020.”

Suggesting the impact of the pandemic on the Indian economy, the report says, “The large disruption in economic activity in the wake of the pandemic has resulted in fiscal strains, corporate sector stresses and weakening of demand conditions. Rapid and bold responses of the Reserve Bank, other financial sector regulators and the Government have contained risks to financial stability for now. Inward capital flows have been supported by surplus global liquidity in search of yields. The full impact of the pandemic on the domestic economy is still unfolding and the outlook would depend on the pace of the recovery, especially for more vulnerable cohorts of small and medium enterprises.”

Warning about the downside risks to economic recovery, the report mentions, “Surges of capital flows are being experienced, with the return of risk appetite and a renewed search for yield. Financial markets and asset prices have been lifted by this resurgence of foreign portfolio investment to India. Alongside a growing optimism on the brightening of India’s prospects, consumer and business confidence is turning upbeat with the progressive unlocking and normalisation of supply disruptions. Nevertheless, global developments, elevated domestic inflation pressures and the incipient festering of financial stress under the camouflage of moratorium, asset recognition standstill and the one-time restructuring, slant the balance of risks to the downside...

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... The growing convergence of the Indian banking system with post-GFC (global financial crisis) regulatory and prudential standards, created capital and liquidity buffers which provided resilience in the current pandemic. Going forward, these cushions in banks’ balance sheets will have to contend with the rollback of regulatory forbearances announced in the wake of the pandemic. Capital and asset quality ratios of

SCBs will be tested as the true economic value of portfolios of banks and other financial intermediaries is impacted by the disruption caused by the pandemic.”

Notifications

PIB

Cabinet approves MoU between India and UAE for Scientific and Technical Cooperation

<https://pib.gov.in/PressReleasePage.aspx?PRID=1688199>

Quick Estimates of Index of Industrial Production for the Month of November 2020

<https://pib.gov.in/PressReleasePage.aspx?PRID=1687965>

Consumer Price Index Numbers for the Month of December 2020

<https://pib.gov.in/PressReleasePage.aspx?PRID=1687967>