Indian Banks' Association

FICCI-IBA Survey of Bankers

Issue 16

July– December 2022

Survey Findings – Summary

The sixteenth round of the FICCI-IBA survey was carried out for the period July to December 2022. A total of 24 banks including public sector, private sector and foreign banks participated in the survey. These banks together represent about 72% of the banking industry, as classified by asset size.

India is on a growth path despite global headwinds. The recovery in economic activity in FY22, along with improved financial soundness of banks and corporates has helped Indian banking sector to do reasonably well. The last few months in 2022 witnessed a trend reversal with credit growth outpacing the deposit growth.

The survey findings show that long term credit demand has seen continued growth for sectors such as Infrastructure, Chemicals and Food Processing. Textiles and Petroleum products have also witnessed accelerated long-term loan disbursements in the past six months. The survey suggests that the outlook on expectation on growth of non-food industry credit over the next six months is optimistic with 36% of the participating banks expecting non-food industry credit growth to be above 12%. Another 32% of the respondents are of the view that non-food industry credit growth would be in the range of 8 –10%.

Successive rise in interest rates over the last few months have led to some shifts in deposits. In a reversal of trend, a large majority of respondent banks (55%) reported a decrease in the share of CASA deposits in total deposits in the current round of survey as against 13% in the previous round. The term deposits have picked up pace as reported by the respondent banks.

In terms of credit standards, 83% of respondent banks reported that these remain largely unchanged for large enterprises. For SMEs too, 59% of the respondents have reported no change in credit standards in the current survey round.

Turning to asset quality, there seems to have been a further improvement in asset quality with an overwhelming 90% of the respondents reporting a decrease in the NPA levels in the last six months as compared to 67% in the previous round. All participating Public Sector Banks have cited a reduction in NPA levels while amongst participating Private sector banks, 88% banks have cited a decrease. However, 13% have stated an increase in NPA levels over the last six months.

Amongst the sectors that continue to show high level of NPAs, most of the participating bankers identified sectors such as Infrastructure, Food Processing and Textiles. Other sectors identified as high NPA sectors include Retail, Metals and Iron & Steel.

A large majority (76%) of respondents have reported decrease in requests for restructuring of advances in the current round of the survey as compared to 56% in the previous round. The proportion of respondent banks citing an increase in requests for restructuring of advances has also dropped to 5% in the current round of survey from 12% in the previous round.

Survey Findings – Summary

The worries over bank bad loans is not that troubling anymore, cushioned by policy and regulatory support and this was reflected in the survey results. An overwhelming 95% of the respondent banks in the current round believe that Gross NPAs would be below 8% over the next six months while just 5% of the respondents are of the view that NPA levels would be in the range of 9-10%. All Public Sector Banks and foreign banks respondents expect NPA ratio to be below 8%, while 90% of the responding private banks largely expect NPA levels to be below 8%.

Pick up in credit growth, lower slippages as well as reduction in outstanding GNPAs through recoveries, upgradations and write-offs, effective utilization of IBC norms in large accounts, transfer of Stressed accounts to NARCL and sale of accounts to ARCs, initiation and concluding action under SARFAESI act in time bound manner, initiation of legal action through Court/DRTs and settlement of accounts through OTS were cited as the key factors by respondent bankers who reported gross NPAs to be below 8% over the next six months. As per respondents, some of the sectors that may continue to show NPAs over next six months include MSME, Textiles and garments, Aviation, Retail Trade and Power.

The Russia-Ukraine conflict in Europe has led to severe economic disruption globally. Bankers were asked about the impact of this on trade financing by Indian banks. The survey respondents were largely of the view that the conflict in Europe has had a limited impact on trade financing by Indian banks. Respondent Bankers were of the view that July 2022 notification of RBI for invoicing and settlement of trade transactions in Indian Rupees was a positive step, though the real impact of same will be visible in the long-term. They felt that this alternate form of settlement will see more takers going forward once the counter parties discuss and arrive at the workable solution to handle the FX risk.

In view of RBI's first digital rupee pilot at both wholesale and retail level, bankers were asked for their views on the subject. Some of the benefits highlighted by bankers include reduction in cash in circulation, lower transaction costs, creation of digital credit history, and ease in cross border rupee trade. The challenges underlined by bankers include lack of awareness among major population on proper use of digital money, lack of infrastructure to support digital transactions in remote areas, threat of digital theft and cyber-attacks, and issues related to data privacy.

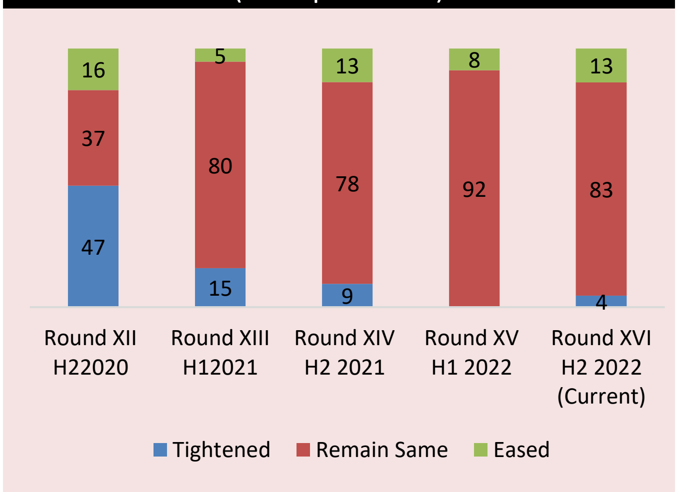
Most of the participating banks have reported going green and taking various initiatives in that direction, including financing of various green projects, introduction of special loan schemes at retail level for financing of Electric Vehicles, setting up of ESG committee on board and drafting of ESG policy, and inclusion of Environment and Climate risk as a part of the rating model in Credit Assessments, amongst other measures to promote ESG initiatives.

The major challenges cited by the participating banks in implementation of green financing include lack of taxonomy for defining green loans, higher cost of borrowing, need for capacity building of banks for risk assessment based on ESG parameters. Some of the suggestions offered included developing a comprehensive national policy framework, including a well-defined standardized taxonomy with clear definitions for green projects, and increasing the Priority Sector Lending limit for various Green Projects.

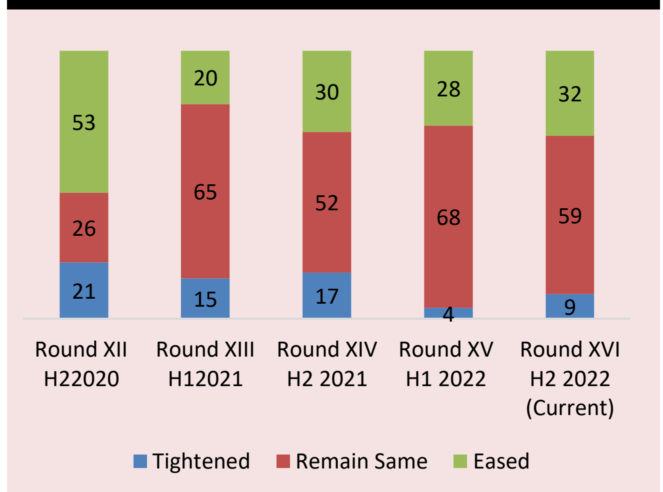
Change in Credit Standards

In the current round of survey, 83% of respondent banks reported credit standards for large enterprises to have remained unchanged as against 92% in the last round. Respondents reporting tightening in credit standards were only 4% while those reporting easing of credit standards has increased to 13% in the current round as against 8% in the previous round. With respect to SMEs too, as against 68% of the respondent banks reporting no change in credit standards in the last round, 59% of the respondents have reported the same in the current survey round, and 32% have reported easing of credit standards.

Credit standards for large enterprises (% respondents)

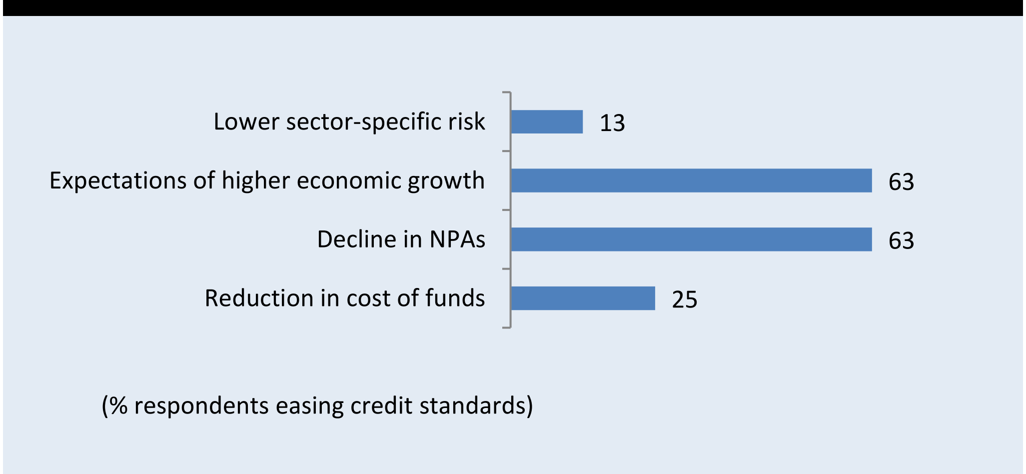


Credit standards for SMEs (% respondents)



Out of the respondents reporting an easing in credit standards, 63% cited decline in NPAs as the main factor, while another 63% reported expectations of high economic growth as the key factor for eased standards.

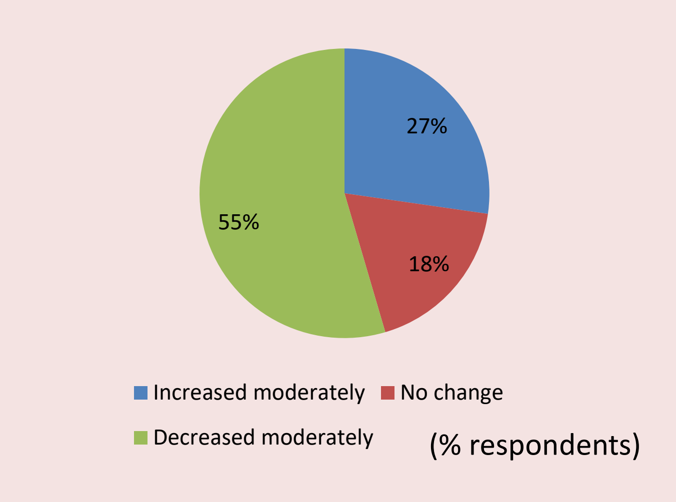
Factors behind easing of credit standards



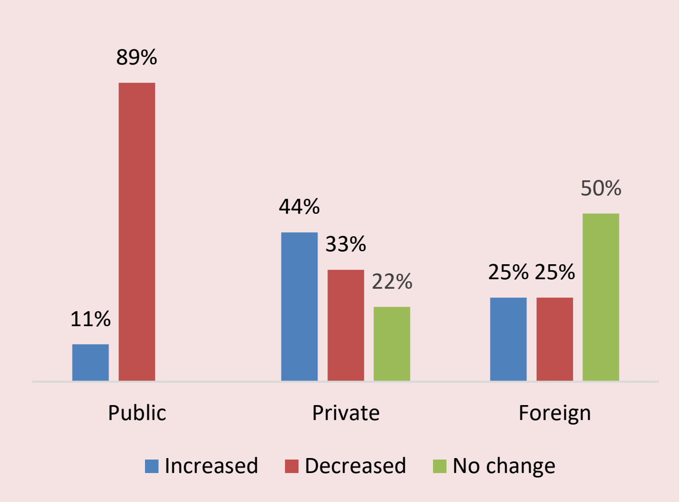
Changes in Current Account and Savings Account Deposits

The rise in interest rates have led to some shifts in deposits. In a reversal of trend, a large majority of respondent banks (55%) reported a moderate decrease in the share of CASA deposits in total deposits in the current round of survey as against 13% in the previous round. The respondents reporting a moderate increase in CASA deposits also dropped to 27% in the current round as against 71% in the previous round.

Change in share of CASA deposits (%) in current round vis-à-vis previous round



Bank-wise change in share of CASA deposits (%)

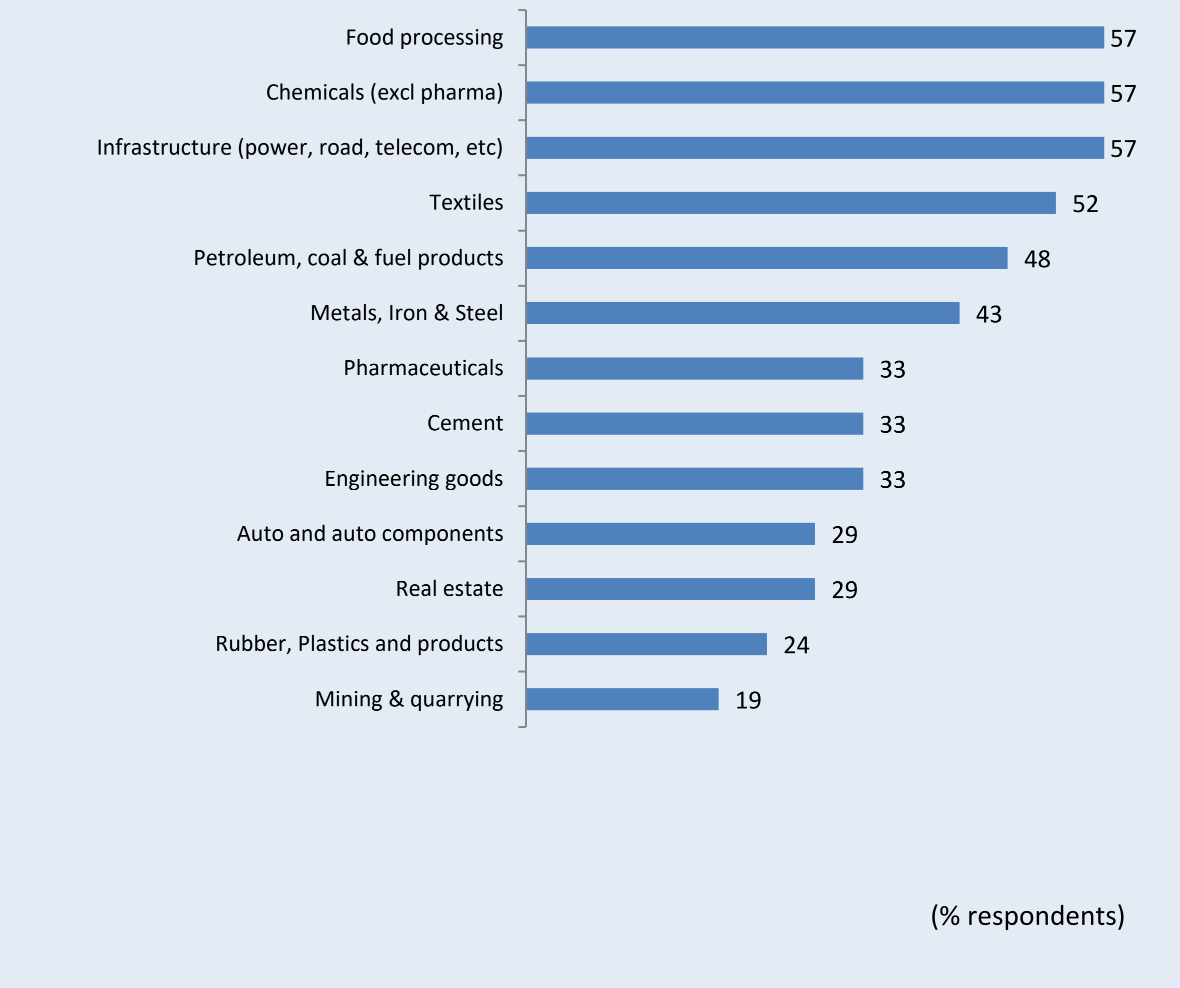


When compared across bank types, a large majority (89%) of participating Public Sector Banks reported a decrease in share of CASA deposits during the second half of 2022 vis-à-vis the first six months of 2022. In the previous round, only 22% of PSB respondents had reported a decrease in share of CASA deposits. Amongst the private sector bank respondents, 44% reported an increase in CASA deposits, while 33% reported a decrease in share of CASA deposits. In case of foreign bank respondents, majority of the respondents (50%) reported no change in share of CASA deposits in total deposits.

Demand for Long-Term Loans

The current round of survey reveals that there has been increase in long term credit demand for some sectors. Infrastructure, Chemicals and Food Processing continues to witness a rise in long term credit in the past six months, according to the survey respondents, sectors such as Textiles and Petroleum products have also witnessed accelerated long-term loan disbursements in the past six months (July to December 2022)

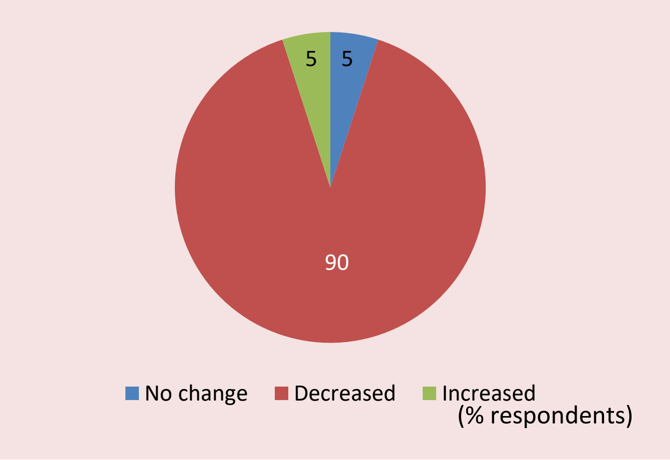
Sectors witnessing increase in long term loan disbursements in last six months



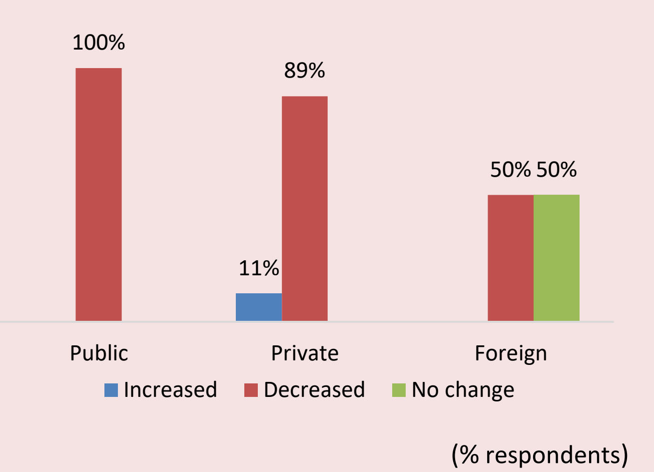
State of NPAs and Stressed Assets

An overwhelming 90% of the respondents reported a decrease in the NPA levels in the last six months as compared to 67% in the previous round. All participating PSBs have cited a reduction in NPA levels while amongst participating Private sector banks, 89% banks have cited a decrease and another 11% have stated an increase in NPA levels over the last six months. Half of the participating Foreign banks have cited decrease in NPA levels over the last six months.

Change in the level of NPAs

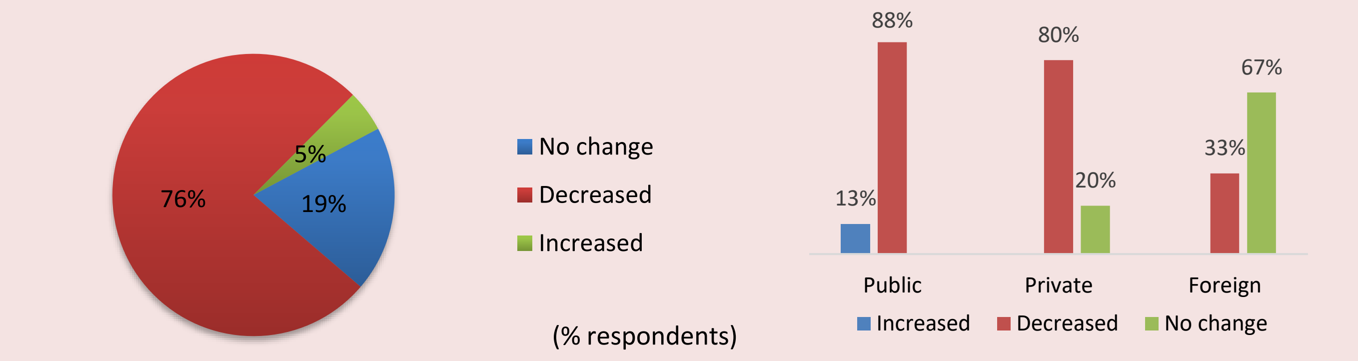


Bank Wise Increase/Decrease in level of NPAs



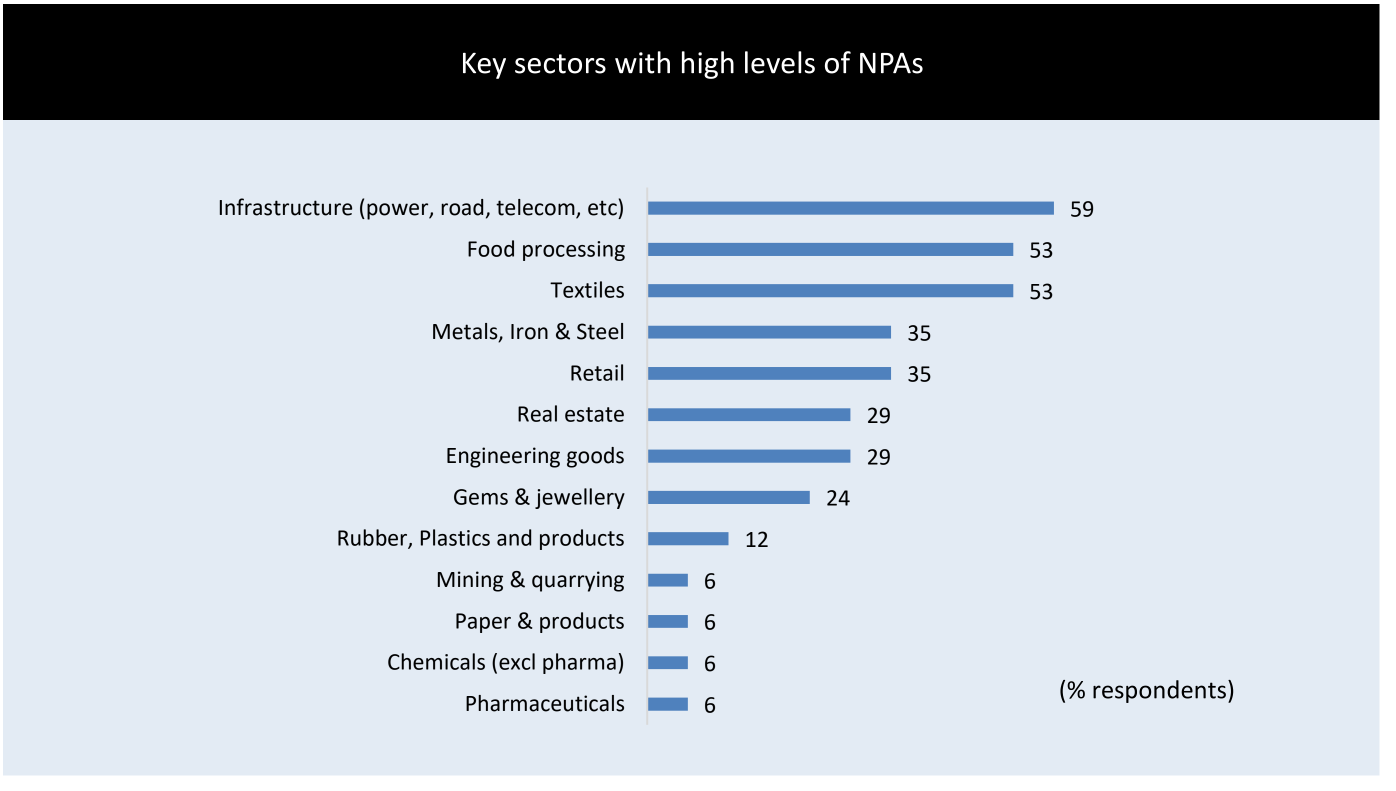
A large majority (76%) of respondents have reported decrease in requests for restructuring of advances in the current round of the survey as compared to 56% on the previous round. The proportion of respondent banks citing an increase in requests for restructuring of advances has also dropped to 5% in the current round of survey from 12% in the previous round. Bank-wise analysis reveals that 88% of participating PSBs have cited a decrease in requests for restructuring of advances while 13% of such respondents have reported increase in such requests. In case of participating Private sector banks, a huge majority (80%) of respondent banks have cited a decrease while 20% have stated that there was an increase in restructuring requests over the last six months. A large proportion of participating Foreign banks (67%) have cited no change in restructuring requests while 33% stated a decrease over the last six months.

Requests for Restructuring of Advances over last six months



Key Sectors with High Level of NPAs

Most of the respondent banks have reported a decline in level of NPAs. The sectors that continue to have higher concentration of NPAs across respondent banks include Infrastructure, Food Processing, Textiles, Iron & Steel and Retail.



Trend in NPAs in key sectors

Even amongst some of the sectors that continue to show high level of NPAs, there has been a decline in NPA levels in the second half of 2022 as against the previous six months.

- In case of Infrastructure, which has been cited as sector with high NPA levels by 59% respondents, 80% of such respondents have reported a decline in NPAs over the last six months and 10% have reported a rise.
- For Food Processing, which has been reported to have high NPA level by 53% respondents, over half of such bankers have reported a decline in NPA levels during the second half of 2022 while 11% reported an increase.
- However, in case of Textiles, which has been identified as high NPA sector by 53% respondents, 67% of such respondents reported an increase in NPA levels over last six months while 11% of such respondents have reported a decline.

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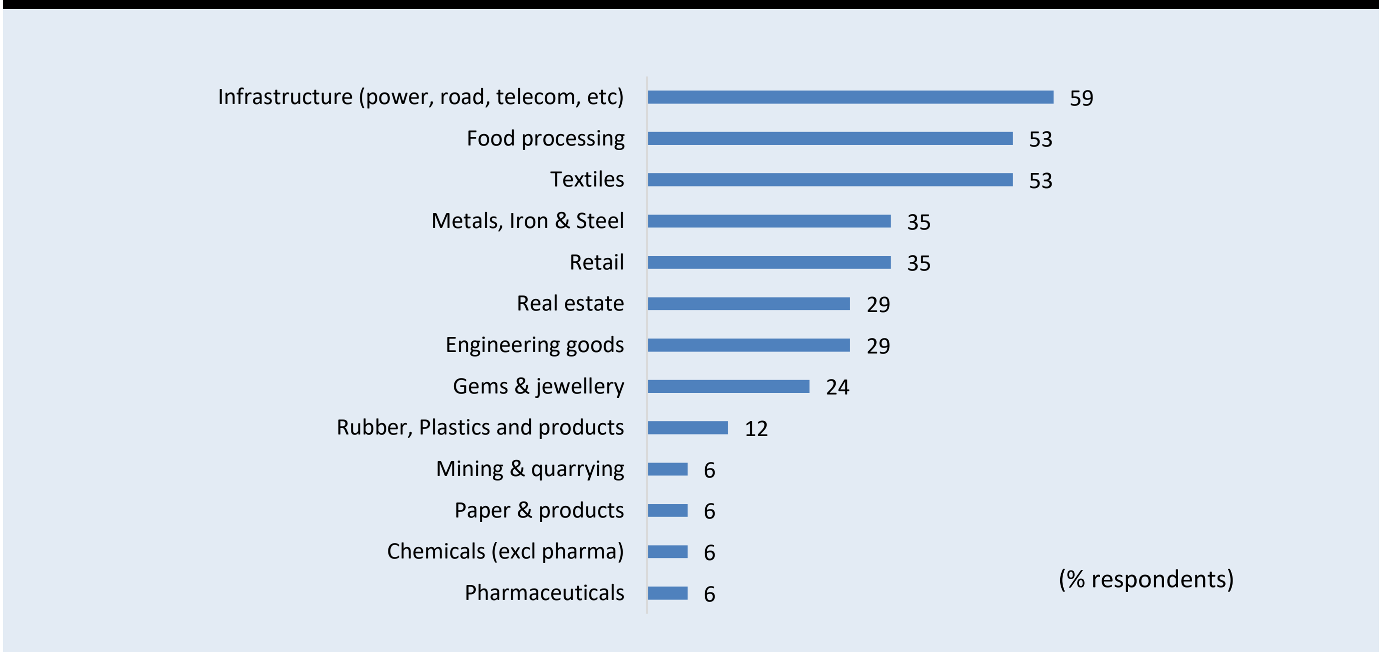
Key sectors with high levels of NPAs



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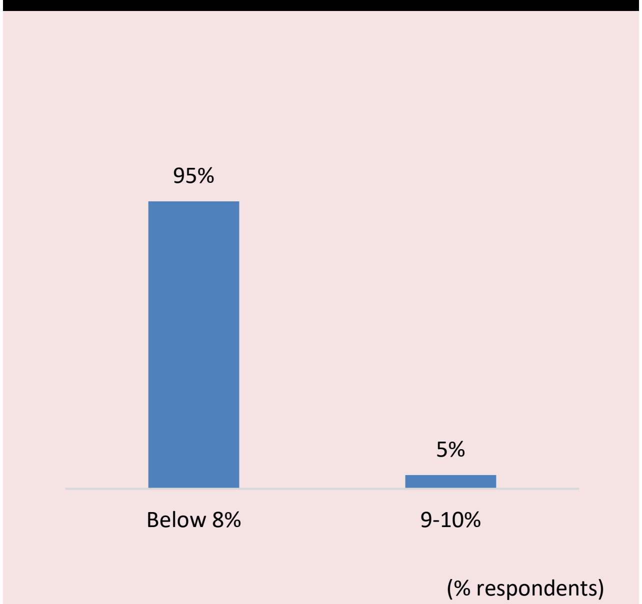
- However, in case of Textiles, which has been identified as high NPA sector by 53% respondents, 67% of such respondents reported an increase in NPA levels over last six months while 11% of such respondents have reported a decline.

Outlook on NPAs

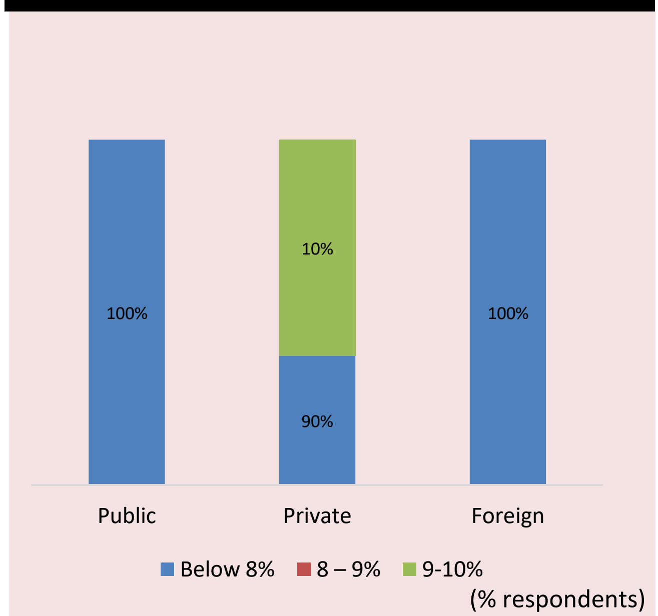
The gross non-performing assets (GNPA) ratio of SCBs continued to decline and stood at a seven-year low of 5.0% in September 22. The worries over bank bad loans is not that troubling anymore, cushioned by policy and regulatory support and this was reflected in the survey results. Bankers were asked to share their assessment on gross NPAs over the next six months. Tellingly, an overwhelming 95% of the respondent banks in the current round believe that NPAs would be below 8% over the next six months while just 5% of the respondents are of the view that NPA levels would be in the range of 9-10%.

All PSB and foreign bank respondents expect NPA ratio to be below 8%. In case of Private sector banks, 90% of respondents largely expect NPA levels to be below 8% while 10% expect NPAs to hover in the range of 9-10%.

Expected NPA levels over the next six months



Bank Wise Expected NPA levels



Pick up in credit growth, lower slippages as well as reduction in outstanding GNPAs through recoveries, upgradations and write-offs, effective utilization of IBC norms in large accounts, transfer of Stressed accounts to NARCL and sale of accounts to ARCs, initiation and concluding action under SARFAESI act in a time bound manner, initiation of legal action through Court/DRTs and settlement of accounts through OTS were cited as the key factors by respondent bankers who reported gross NPAs to be below 8% over the next six months. As per RBI Financial Stability Report of December, 2022, under the assumption of no further regulatory reliefs as well as without taking the potential impact of stressed asset purchases by National Asset Reconstruction Company Limited (NARCL) into account, stress tests indicate that the GNPA ratio of all SCBs may improve from 5.0 per cent in September 2022 to 4.9 per cent by September 2023, under the baseline scenario. Majority of the respondents view supports this reduction in GNPA.

Outlook on NPAs sector-wise

There is a mixed response with respect to sectors identified with high NPA risk over the next six months, by participating bankers in the current round of survey.

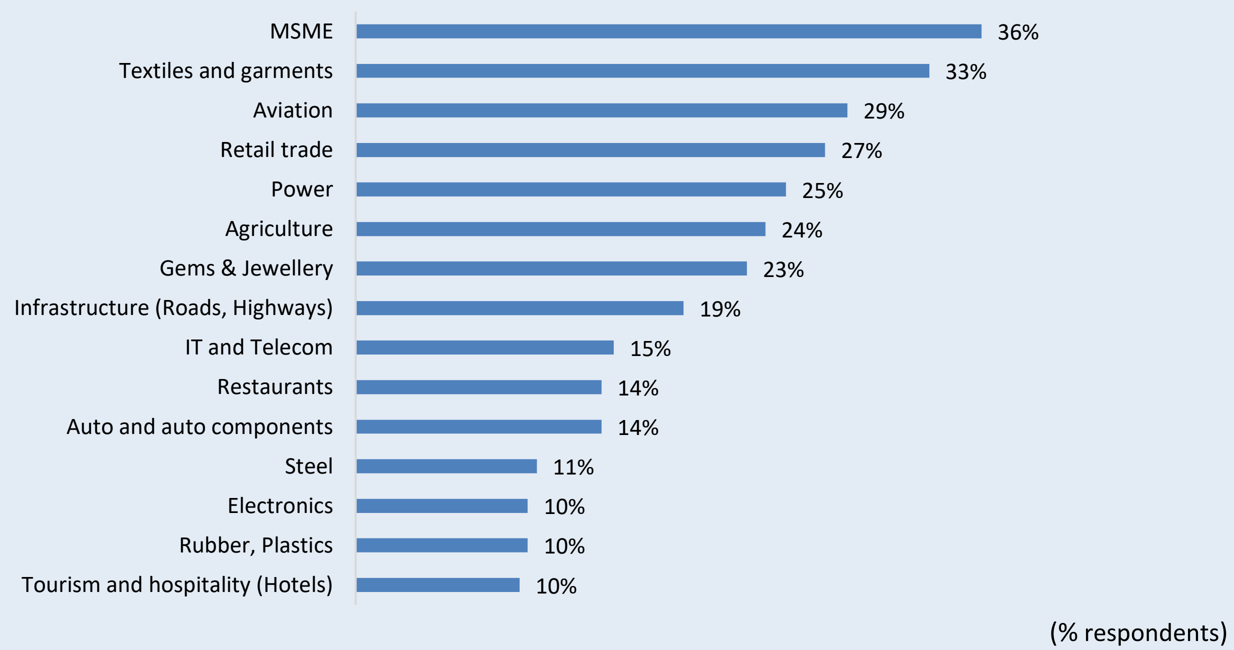
36% of the respondent banks expect NPAs in the MSME sector to increase in the next 6 months – this is however down from 65% reported in the previous round of the survey. 41% of the respondents expect NPA risk to remain unchanged amongst MSMEs in the next six months.

Textiles and garments was reported as another high NPA risk sector by participating bankers. 33% respondents expect NPAs to increase in this sector in the next 6 months while 48% of the respondents expect NPA risk to remain unchanged in the next six months.

29% respondents expect NPAs in the Aviation sector to increase in the next six months, an improvement compared to the previous round where half the respondents cited Aviation to pose higher NPA risk.

Retail Trade was cited as a sector that could pose a higher NPA risk in the next six months by 27% of survey respondents, as against 35% reporting so in the previous round.

Sectors with expectations of increase in NPA levels over next six months



Current Developments – Digital Rupee

In view of RBI's first digital rupee pilot at both wholesale and retail level, bankers were asked for their views on the subject. Bankers who have participated in the survey, have highlighted the benefits it entails and the challenges that remain to be addressed.

Benefits

The key benefits of the Digital Rupee, as identified by the respondent bankers are listed below.

- **Cost reduction**: Digital rupee will lead to reduction in 'cash in circulation'. This will thus lower banks' operational costs of cash management by lowering the burden of handling, printing and logistics management of cash.
- **Lower transaction costs**: Settlement in central bank currency would lower transaction costs by avoiding the requirement for settlement assurance infrastructure or collateral to decrease settlement risk.
- **Efficiency and security**: Digital Rupee can potentially result in transactions efficiencies and more secure transaction, reducing the potential for fraud.
- **Ease cross border rupee trade**: Through digital currency implementation among many countries, the international currency transactions would be faster and less costly.
- **Boost to digital economy and greater financial inclusion**: Digital currency will enable creation of credit history directly with the RBI. Data analytics of transaction data can help in better insights for policy formulation and for enhancing availability of credit to MSMEs.

Challenges and Suggestions

- **Limited awareness:** Currently, there is limited awareness among public on the digital Rupee. For widespread use of the Digital currencies, awareness among general public will need to be created around basic operations such as opening of the account and storing digital assets securely. Onboarding of additional merchants / counterparties for such transactions also would have to be scaled up.
- **Capacity building:** Banks will have to develop capabilities to advise their customers on CBDCs as an asset class, asset allocation strategies as well as payment and settlement instruments. RBI will have to ensure wide acceptance of the CBDC including compatibility with existing POS equipment, instant processing, round-the-clock availability and offline capabilities. Central Bank should extend adequate support and advisory to Banks who do not have adequate infrastructure to support blockchain.
- **Cyber Security:** Threat of digital theft and cyber attacks needs to be appropriately mitigated. Cybercrimes involving digital currencies mainly target digital-wallets could be another major challenge and would require a robust technology architecture.
- **Data privacy:** The regulatory architecture such as data protection bill and Data Protection Authority needs to be set up to take care of issues around data breaches. In absence of these, addressing financial data breach would be one of the major challenges.

Current Developments – Trade Financing

The Russia-Ukraine conflict in Europe has led to severe economic disruption globally. Bankers were asked about the impact this has had on trade financing by Indian banks. Respondents were also asked to share their views on how the recent notification of the RBI for invoicing and settlement of trade transactions in rupees has helped in stabilizing or promoting trade.

- The survey respondents were largely of the view that the conflict in Europe has had a limited impact on trade financing by Indian banks.
- Respondent Bankers opined that the recent notification of RBI for invoicing and settlement of trade transactions in rupees, would encourage exports, and work as a counter-measure in regard to the widening trade deficit. The same would also help the Rupee to recover. Under this enablement, surplus Rupee can be channeled back into Rupee assets. The move would also better trade relations with countries under sanction who are at present unable to make trade settlements in dollars, while also stemming outflow of dollars from the country.
- However, respondents cautioned that since major exporting countries are yet to open Vostro accounts, the real positive effect of these measure would only be visible in the long-term as it will gradually contribute to the global acceptance of the currency. As per the survey respondents, this alternate form of settlement will see more takers going forward once the counter parties discuss and arrive at the workable solution to handle the FX risk.

Current Developments – Green Financing

Green Financing has been a focus area of the banking sector over the last few years. Respondent bankers shared steps taken by them towards green financing and also their views on the key challenges Indian banks face with respect to green transition and how those can be addressed.

Steps taken by Banks towards Green Economy

Most of the participating banks have reported going green and taking various initiatives in that direction. Various measures being implemented by Banks towards green financing and green economy include –

- Financing of various green projects including Renewable Energy projects, Electric Vehicles, Solar Water Pumps, Solar Roof tops, etc.
- Introduction of special loan schemes at retail level for financing of Electric Vehicles; schemes for educational institutes, hospitals and hotel chains for procurement of solar energy equipment such as solar cooker, solar heater, solar indoor lighting system, etc.
- Setting up of ESG committee on board and drafting of ESG policy
- Inclusion of Environment and Climate risk as a part of the rating model in Credit Assessments
- Concessional benefits on loans offered to ZED (Zero Effect Zero Defect) certified units
- Prohibiting lending to Ozone depleting substances
- Raising of finance through issue of Green Bonds and utilising proceeds to finance green projects
- Participation in public awareness programmes on subjects related to Clean Environment
- Implementing energy efficient and green measures in their banks, such as installation of solar power roof top plants in their office buildings, deploying energy efficient electrical and electronic equipment, adopting recycling practice, reducing wastage of resources, etc.

Current Developments – Green Financing

Major Challenges in Green Financing and Suggestions

- **Accounting standards and no common taxonomy**: Accounting Standards related to ESG are segregated and the degree of clarity is very low. There is also no common taxonomy to define green loans in the system. A comprehensive national policy framework, including a well-defined standardized taxonomy with clear definitions for green, sustainable and transition technologies/ activities/ projects, will provide a real thrust to green financing in the country.
- **Higher Cost of Borrowing**: The Cost of Issuing Green Bonds are higher than other Bonds in India. The same may be due to asymmetric information. Developing a better information management system may help in reducing maturity mismatches, borrowing costs and lead to efficient resource allocation in this segment.
- **Capacity Building of Banks:** While a few banks have reported undertaking credit assessment by taking ESG into consideration, yet there is a need to build capability in the banking sector to develop ESG integrated credit risk assessment models.
- **Pricing issue:** One of the key challenges for banks is to evaluate projects that are compliant with green norms and to have a differentiated approach in terms of pricing. To address pricing issues, a minimum benchmark ROI may be fixed for certain industries with high carbon emission, alternatively interest subvention be introduced for low carbon emission industries / activities. Common minimum standards and risk measurement methodologies may be developed for usage by Banks.
- **Enhancing credit flow to Green Projects**: There is a need to increase availability of credit for green projects, especially given the future requirement and the push towards green economy. To ensure adequate availability of financing for green projects, the RBI may consider increasing the Priority Sector Lending limit for various Green Projects.
- **Resourcing and upskilling:** Development and rollout of green financing requires training, recruiting of subject matter experts, and targeted support from external vendors/consultants. The awareness in in the area of sustainable and green finance among staff should be taken on priority. Banks need to invest significantly in the capacity building of their staff on climate risk, ESG and sustainable finance. RBI may consider engaging training bodies (e.g., CAFRAL) to initiate workshops and courses to develop domestic knowledge.

Respondents Profile

Twenty-four Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Together, these banks constitute about 72% of the total banking asset size.