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वेबसाइट : [www.rbi.org.in/hindi](http://www.rbi.org.in/hindi)

Website : [www.rbi.org.in](http://www.rbi.org.in)

इ-मेल email: [helpdoc@rbi.org.in](mailto:helpdoc@rbi.org.in)

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 022 2261 0835 फैक्स/Fax: 91 22 22660358

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## Report on Trend and Progress of Banking in India 2017-18

The Reserve Bank of India today released the statutory [Report on Trend and Progress of Banking in India 2017-18](#). This Report presents the performance and salient policy measures relating to the banking sector during 2017-18 and 2018-19 so far. The Report also provides an analysis of the co-operative banks and non-banking financial institutions. The highlights of the Report are set out below:

- The overhang of stressed assets weighed down the consolidated balance sheet of the banking sector, necessitating large provisions, which adversely affected their profitability during 2017-18. Recent data for H1:2018-19, however, indicates that the non-performing assets (NPAs) have begun to stabilise, *albeit* at an elevated level; capital positions have been buffered and the provision coverage ratio has improved.
- The year 2017-18 can be considered a watershed in the resolution of stressed assets as the foundation of a new, comprehensive, decisive and credible framework was laid and built upon through the Reserve Bank's circular dated February 12, 2018 under the overarching mandate of the Insolvency and Bankruptcy Code (IBC).
- The revival in credit growth in 2017-18, from the deceleration in the previous year, coupled with improving share of bank finance in the total flow of resources to the commercial sector, augurs well for the growth prospects of the banking sector. The continuing credit growth recovery in 2018-19 (up to October 2018) may further reinforce this momentum.
- The Reserve Bank took steps to progressively align the liquidity risk management practices of the Indian banking system with international standards. Further, commercial banks were allowed to co-originate priority sector loans with non-deposit taking systemically important non-banking financial companies (NBFCs-ND-SI) to enhance the efficiency of credit delivery to priority sectors.

- In the co-operative banking space, the consolidated balance sheet of urban co-operative banks (UCBs) moderated in 2017–18 on account of slower deposit growth. While the overall profitability of these banks moderated, their asset quality improved. The eligible UCBs are now allowed to transit to small finance banks (SFBs), which would enable them to carry out a wider range of activities and also have a pan-India presence.
- Within the rural co-operatives arena, the performance of state co-operative banks (StCBs) in terms of NPA ratios and profitability continued to improve whereas the performance of district central co-operative banks (DCCBs) deteriorated.
- The balance sheets of NBFCs, especially that of companies that provide loan finance (NBFCs-Loan Companies), have been growing manifold against the backdrop of relative decline in their cost of lending *vis-à-vis* banks and subdued credit growth of scheduled commercial banks (SCBs) in the previous three years. The consolidated balance sheet of NBFCs expanded in 2017-18 and during the first half of 2018-19. The profitability of NBFCs improved on account of fund-based income, relatively lower NPA levels and strong capital position. The recent concerns about some NBFCs are being proactively addressed.
- The Report flags major challenges that are likely to shape the outlook for the financial sector in India, which include:
  - Continuing with the progress made under the new resolution framework with the IBC as the focal point;
  - The need for adequate recapitalisation of public sector banks;
  - Firming up of corporate governance mechanisms to address the growing complexity of the Indian financial system; and
  - Strengthening the asset-liability framework for NBFCs to bring it on par with that of banks and harmonising it across different categories of NBFCs.