Source : www.thehindu.com Date : 2019-04-12

HIGH STOCK OF NON-PERFORMING ASSETS IN INDIA, MORE PROGRESS NEEDED: IMF

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

Progress card:IMF head of Monetary and Capital Markets Tobias Adrian briefs the media at the IMF headquarters.afp

There continues to be a high stock of non-performing assets (NPAs) in India, and there has been some progression. Further progress is welcome, IMF head of Monetary and Capital Markets Tobias Adrian said.

Mr. Adrian made these remarks at the release of the multilateral institution’s April 2019 Global Financial Stability Report (GFSR) as part of the World Bank IMF Spring Meetings.

The GFSR provides an assessment of balance sheet vulnerabilities across financial and non-financial sectors in advanced and emerging market economies.

“The level of capitalisation of some banks, particularly government-owned banks should be bolstered. This is also one of the recommendations of the Financial Sector Assessment Program for India that took place fairly recently,” Anna Ilyina, who heads Monetary and Capital Markets at the IMF, said. There were some steps taken by the authorities to boost capital buffers in banks and also governments in state-owned banks, that have had some positive impact, she said.

“In particular we’ve seen average price-to-book ratios for Indian banks improving somewhat and the institutional mechanisms for resolution and recognition of [non-performing loans] NPLs are, of course, extremely important… and I think authorities should continue working along these lines,” Ms. Ilyina said.

Portfolio flows to emerging markets are influenced by benchmark-driven investors — 70% of country allocations of investment funds are impacted by benchmark indices, the report said.

This category of investors are more sensitive to global financial conditions and as they command increasing shares of portfolio flows, external shocks may propagate to medium-size, and frontier market economies faster than they did in the past.

China, a priority

China is likely to become more important for other emerging markets as it gets included in benchmark indices. Portfolio flows to China are expected to increase by $150 billion by 2020 due to its inclusion in a global bond index, according to the report.

“Financial vulnerabilities in China remain high, and the authorities face a difficult trade-off between supporting near-term growth, countering adverse external shock, and containing leverage through regulatory tightening,” the report said.

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