FICCI-IBA Bi-annual Survey of Bankers

- NPA levels during July-December 2015 period rise…
- Banks ask for specific measures in the Union Budget 2016-17 to resolve the issue of stressed assets
- Seek greater capital infusion to restore health of the Banking sector

New Delhi, 24 February 2016: FICCI - IBA Survey of bankers conducted during January-February 2016 reveals insights on some of the key operational areas of banks in India for the period July-December 2015.

Below are the key findings of this Survey, which saw participation by 17 banks including public, private and foreign banks.

- Majority of participating banks have not reported any change in credit standards during the period July-December 2015 vis-à-vis the previous six months. However, about 35% of respondents have tightened their credit standards for large enterprises due to rising NPAs and higher sector-specific risk. In case of SMEs, about 23% of respondents have eased their credit standards citing thrust laid by the government as one of the key reasons.

- All participating banks have lowered their base rate following the policy rate reduction by RBI, but transmission has varied. While majority (41%) of the respondent banks have reduced base rate by 20-30 bps, only 24% have reduced base rate by more than 40 bps over the July-December 2015 period.

- All participating banks have also reduced interest rates on term deposits. In case of short duration term deposits of less than one year, 53% of respondent banks have reduced rates by more than 50 bps, while in case of long duration term deposits of one year and above, 35% of respondent banks have reported reduction of more than 50 bps.

- A large majority (76%) of the respondent banks in the survey have reported a moderate rise in Current and Savings Account (CASA) deposits during the period July-December 2015, on the back of greater emphasis laid on low-interest / retail deposits.

- During the period July-December 2015, the participating banks have on an average utilised 68% of their funds for loans and advances, while 32% have been used for investments.

- Continued thrust laid on infrastructure sector by the government is reflected in rising demand from the sector. A majority 65% of respondents reported high demand for long-term credit from infrastructure sector during July-December 2015. In the previous round of survey too, majority (76%) banks had reported high demand from this sector.

Given the rising demand for infra-financing, one of the key suggestion of Banks for the Union Budget is to allow banks to issue off-shore rupee bonds to finance infrastructure.

- There has been a rise in NPAs and stressed assets during the period July to December 2015. The proportion of respondent banks reporting rise in the level of their NPAs is higher at 76% in this round of survey as against 63% in the previous round. A majority 53% of the respondent banks have also indicated that there has been a rise in the number of cases requesting for restructuring of advances. As per the survey, the key sectors that have seen a surge in NPA levels in the second half of 2015 include infrastructure, metals, textiles, and chemicals, amongst others.

- Given the severity of NPA problem, majority of the participating banks expect the Union Budget to introduce specific measures for its resolution. Some of the suggestions offered include:

  - Establishing a National Asset Management Company (NAMCO) or a Bad Bank which can take over stressed loans from the Banks and either sell them off or revive them.
  - Additional budgetary allocation for capitalisation of Public Sector Banks over and above the original commitments
  - Revamping Debt Recovery Tribunals (DRTs)
  - Setting of a fund to aid the revival of stalled Infrastructure projects, Power Discom projects

- Other key budget expectations of Banking sector identified in this survey include:

  - Ceiling for TDS on interest on Deposits to be increased to Rs.50,000 from the current Rs 10,000
  - Tax rebate limit u/s 80C to be increased to Rs 2.5 lakhs
  - Reintroduction of Tax exemptions for Infra Bonds over and above rebate u/s 80C
  - Rationalise the interest rate of small savings schemes

- Surveyed banks were asked for their views on the new lending rates based on Marginal Cost of Funds that will be applicable from April 1, 2016. A large majority of participating banks indicated that the Marginal Cost of Lending Rate (MCLR) regime will lead to effective transmission of monetary policy into the lending rates.

- Banks were also asked for their views on impact of competition with the entry of Payment and Small Banks. Majority of participating banks mentioned that it will intensify competition in the banking sector, especially for savings and current deposits.

<u>About the Survey</u>

Federation of Indian Chambers of Commerce & Industry (FICCI) and Indian Banks' Association (IBA) have come together to conduct a bi-annual Survey of Bankers. The survey essentially captures insights of the banking sector on business operations, the status of NPAs, credit standards, interest rate movements and their views on some key policy measures. This is the second round of the survey corresponding to the period July to December 2015.

Survey Link: http://ficci.in/Sedocument/20354/Bankers-Survey-Report-feb-2016-v02.pdf

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