Global financial stress will be dependent on the **fiscal deficit (% of GDP) glide path**. IMF estimates advanced economies will target to get back to pre-covid levels of deficit by 2024 and emerging economies by 2023 (with exceptions).

	Restoration of fiscal deficit levels to Pre-COVID levels
Advanced Economies	2024
Euro Area	2025
UK	Post 2026
US	2023
Emerging Markets	2023
India	Post 2026
China	2022

Wholesale credit generation in India has been on a slow track. Credit to private entities (non PSUs) have been shrinking.

Wholesale Credit Generation (YoY Growth)				
	Credit to PSU cos		Credit to non PSU cos	
	Sep-20	Sep-21	Sep-20	Sep-21
Commercial Banks	23.80%	12.40%	-5.70%	-5.80%

Wholesale credit by PSBs to **below investment grade** private non-financial companies have collapsed in last two years.

Wholesale Credit to non PSU non Financial cos (yoy%)				
	PSB		PVB	
	Sep-20	Sep-21	Sep-20	Sep-21
AA and above rated	-6%	7.20%	-2%	3.70%
Below Investment Grade	-9.60%	-17.40%	0.50%	-11%

Personal loan growth remained buoyant relative to other categories. However, due to job losses and stress within MSMEs, lenders witnessed surge in sub prime accounts (as a % of all personal loan accounts).

Consumer Category in Personal Loans						
	PSB		PVB		NBFC	
	Sep-20	Sep-21	Sep-20	Sep-21	Sep-20	Sep-21
Sub prime customers share	30%	33%	16%	19%	31%	34%
Prime and above	43%	42%	64%	64%	40%	45%

5. RBI **Stress Test on Banks**:
a) Defining Stress

RBI Stress Test	
	Expected GDP in H1 FY23
Base Case	12.50%
Medium Stress	7.20%
Severe Stress	1.10%

b) Current **Gross Non-Performing Assets** (GNPA) situation:

Current GNPA ratio (%) in commercial banks		
	Sep-20	Sep-21
Agriculture	10	10.2
Industry	13	10
Services	7	6.7
Personal Loan	1.8	2.5

Dissecting Personal Loan GNPA				
	PSB		PVB	
	Sep-20	Sep-21	Sep-20	Sep-21
Credit Card Outstanding	1	12.7	1.5	3.1
Education Loans	7.2	7.2	6.8	7.1

c) Projected impact on **GNPA due to Stress**

Stress induced rise in GNPA				
	Sep-21	Sep-22		
		Base	Medium Stress	Severe Stress
PSB	8.8	10.5	11	11.9
PVB	4.6	5.2	5.4	5.9
All Commercial Banks	6.9	8.1	8.5	9.5

6. **Interconnectedness** within Indian Financial System:
a) Largest provider of liquidity (Sep'21)

Largest provider of liquidity to financial system	Gross Receivables (INR Lakh Cr)
MFs	10.6
Insurance Companies	7

b) Largest receiver of liquidity (Sep'21)

Largest borrower of liquidity from financial system	Gross Payables (INR Lakh Cr)
NBFCs	12.1
HFCs	7.4

a. Contagion Risk due to interconnectedness:

- Simultaneous failure of top 3 NBFCs will erode 6% of banking Tier 1 capital.
- Simultaneous failure of top 3 HFCs will erode 12.5% of banking Tier 1 capital.

TruQuest

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