Source : www.thehindu.com Date : 2019-01-07

BANKS GET A BREATHER ON BAD LOANS

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

In the last five years, investors and depositors in India have become accustomed to banks springing unpleasant surprises on them every time they thought the worst was over on the bad loan crisis.

The Reserve Bank of India’s (RBI’s) half-yearly Financial Stability Reports, which take stock of the strength and stability of Indian banks, had turned into chronicles of gloom tracing the steady worsening of the crisis.

But the RBI’s latest report for December 2018 breaks away from the trend to offer glimmers of hope to these stakeholders. Here are the takeaways from this report.

Dip in proportion

For the first time since the bad loan saga began to play out six years ago, Indian banks have reported a decline in the proportion of loans gone bad for the half-year ended September 2018.

Their aggregate Gross Non-Performing Asset (GNPA) ratio dipped from 11.5% in March 2018 to 10.8% in September 2018. The GNPA ratio captures the proportion of loans in a bank’s books on which borrowers haven’t repaid dues for more than 90 days. The trend started tamely enough, with banks reporting a GNPA ratio of 3.4% in March 2013. But more skeletons began tumbling out of the closet after RBI initiated an asset quality review of individual banks to ferret out their problematic accounts in March 2015. The GNPA ratio more than doubled over the next three years to peak at 11.5% by March 2018.

Even now, the fact that well over a tenth of all loans given out by Indian banks have gone bad is not cause for cheer. But, for banks and their stakeholders, the recent flattening out of the GNPA ratio is to be welcomed because they can finally have a fix on the size of the problem that they’re dealing with, instead of chasing a moving target.

The bulk of bad loans remains concentrated with public sector banks (GNPA ratio of 14.8%), while private sector banks are much better off (3.8%). Of the 55 banks, 23 had ratios below 5% as of September 2018, 10 featured GNPAs in the 5-10% bracket and 21 banks sat on over-the-top GNPAs of 10% to 30%.

Better accounting

If the peaking of GNPAs is good news, even better news is the proportion of restructured advances lurking in bank books falling to 0.5% by September 2018. This shows that most of the doubtful loans in bank books are now accounted for.

One of the most disturbing aspects of the ongoing bad loan saga was that GNPAs officially recognised by the banks were only the tip of the iceberg. In 2013, for every bad loan that banks had recognised as NPA, there was another dicey one hidden from public view because of a cosy arrangement with the borrower to restructure the loan.

In March 2015, while banks reported a GNPA ratio of 4.6%, their restructured advances were far larger at 6.5%. Today, the GNPA ratio is at 10.8%, but restructured loans are down to 0.5%.

Again, it is RBI's asset quality reviews and its February 2018 circular asking banks to wind up all their restructuring schemes that have hastened this recognition.

The total proportion of 'stressed' loans on bank books (NPAs plus restructured loans) peaked at 12.3% in September 2016 and has steadily declined to 11.3% now.

Pending provisions

The spring cleaning of banks' books seems to be almost over when it comes to recognising NPAs. But the pain for investors and depositors will be at an end only when the banks have provided for (set aside their profits) all their irrecoverable loans.

On this score, we are just over the halfway mark. The provision coverage ratio for all banks stood at 52.4% at the end of September 2018.

This suggests that the dent to bank profitability from bad loan provisions will continue over the next many quarters. But public sector banks with a provision coverage of 51.4% have much more pain ahead of them, than private sector banks (56.2%) or foreign banks (87.1%).

Rising provisions were the reason why even as their overall bad loan position improved, five banks saw their capital positions dip below RBI-mandated levels of 9% in the half year ended September 2018, compared to just one bank in March.

The average capital adequacy ratio for all banks was at a comfortable 13.4% as of September 2018.

RBI's stress testing shows that 9 of these banks could fall short of the critical 9% mark by March 2019, even with best-case assumptions on GDP growth, deficits, lending rates and inflation.

Therefore, demands from the distressed public sector banks for capital infusions from the government may continue to tax the fisc and taxpayers in the coming quarters.

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

cra