

BANKS' ASSET QUALITY AT RISK FROM COVID-19 THIRD WAVE, SAYS ICRA

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Deja vu: The third wave could revive the demand for the restructuring of loans, says ICRA's Gupta. Nagara Gopal NAGARA GOPAL

The asset quality of Indian lenders, especially the restructured loan book, is at risk from a potential third wave of COVID-19, ICRA Ratings said in a report.

"With the increased spread of the new variant Omicron, there is a high possibility of the occurrence of a third wave," said Anil Gupta, Vice President, Financial Sector Ratings, ICRA Ratings. "As banks restructured most of these loans with a moratorium of up to 12 months, this book is likely to start exiting the moratorium from Q4 FY2022 and Q1 FY2023," he noted.

"Therefore, a third wave poses high risk to the performance of the borrowers that were impacted by the previous waves and hence poses a risk to the improving trend of asset quality, profitability, and solvency," he said.

Banks had implemented 83% of the total requests (76% for public sector banks and 86% for private banks) received under COVID 2.0, leading to an overall restructuring of Rs. 1.2 trillion of loans till September 30, 2021, Mr. Gupta observed.

As the restructuring requests could be implemented till December 31, 2021, incremental restructuring could increase by 15-20 basis points from the current levels, Mr. Gupta opined.

Restructuring demand

"The third wave could revive the demand for the restructuring of loans, including loans which were already restructured," he said.

"In such a case, visibility on the performance of the restructured loan book, which was earlier expected in FY2023, may now be expected in FY2024 as the moratorium on the existing restructured loans could be extended," Mr. Gupta added.

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