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Rising NPAs to put pressure on bank ratings in 2017: Fitch

By PTI | Updated: Dec 08, 2016, 07.19 PM IST

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MUMBAI: [Banks in China](#) and India will continue to remain under pressure next year due to mounting [bad loans](#), even though earnings and capital buffers are strong enough to withstand any serious threat, Fitch warned today.

"Our 2017 outlook on more than three-quarters of the banks in the region is negative. Though earnings and capital buffers are generally strong enough to withstand these trends, we expect viability ratings to remain under pressure in China and India," Fitch said in a report.

In the 2017 outlook on [Asia-Pacific banks](#), Fitch said, "most of Asia-Pacific's banks are facing a cyclical deterioration in asset quality in 2017, as a challenging economic environment continues to put pressure on borrowers.

Noting that there has been a rapid build-up of private sector debt--both corporates as well as households-- in a number of [APAC](#) economies since 2009, the report said the resultant vulnerabilities will continue to be tested in 2017.

"We expect economic growth in emerging market Asia to moderate further to 6.4 per cent in 2017, which is still faster than the other regions but down from an average of 7.8 per cent in 2010-14," it said.

On the other hand, low commodity prices are still creating financial problems in the resources sector, leading to more troubles for banks. Other challenges that banks face include very low, or negative, interest rates and the rapid development of disruptive financial technology, it noted.

Noting that more downside risks have risen over the last year for the region, it said though the Chinese economy has stabilised, rapid credit growth is posing a rising threat to basic economic and financial stability.

Another pain point could be [Donald Trump's](#) win in the US presidential election which has already led to spike in interest rates, and a stronger dollar.

"Rising dollar will hurt APAC exporters and make it more difficult for borrowers to service dollar-denominated debts," it warned, adding Donald Trump's proposed protectionist policies could disrupt trade, particularly damaging emerging-Asian economies.

"These difficult and uncertain operating environments are likely to translate into further asset-quality deterioration in 2017. We also expect low risk appetite holding demand for credit, which will lead to margin pressures. As a result, banking outlook has become progressively weaker," Fitch said.

But it expects bank capital levels to generally improve despite negative sectoral trends, due to regulatory pressure and slow credit growth. Though recapitalisation and absorption buffers across are generally comfortable across the region, with notable exceptions of China and India, the report noted.

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