

01:16 PM 16 JAN MARKET STATS ▾	SENSEX 27,295 ▲ 56.93	NIFTY 50 8,415 ▲ 15.00	GOLD (MCX) (Rs/10g.) 28,575 ▲ 195.00	USD/INR 68.17 ▲ 0.01	CREATE PORTFOLIO	Download ET MARKETS APP	CHOOSE LANGUAGE ENG
--	---------------------------------	----------------------------------	--	--------------------------------	-------------------------	--------------------------------	------------------------

India's bad loan worth may be bigger than New Zealand's \$170-bn economy

By Reuters | Updated: May 12, 2016, 07.51 PM IST

[Post a Comment](#)

MUMBAI: India's bad-loans problem looks much worse than lenders have been willing to acknowledge, heaping pressure on banks' profits and further tightening the screws on distressed debt that could be bigger than [New Zealand's \\$170 billion economy](#).

RELATED COMPANIES

EXPAND

[ICICI bank](#)

[Axis Bank](#)

The magnitude of the debt-mess was laid bare late last month when two of the largest private sector lenders provided unprecedented guidance on non-performing loans, underscoring repeated warnings by [Reserve Bank of India's](#) governor [Raghuram Rajan](#) on the need to clean up banks' balance sheets.

The dangers are clear cut. Increasing provisions to cover rising bad loans are likely to hurt banks' profits and curb credit growth, stoking a vicious circle of lower economic growth triggering more defaults and choking off [business](#) investment and production.

Indeed, banks' loan growth at 10.7 percent in the last fiscal year ended March 31, was the slowest in nearly two decades, partly on lower lending to debt-heavy sectors such as iron and steel that account for the lion's share of bad debt.

Profits at most lenders have also taken a hit in the past six months as they set aside a higher sum to cover for defaults after a clean-up exercise ordered by the RBI.

"The banks need to keep provision covers high," said Abhishek Bhattacharya, a director at Fitch's Indian affiliate, India Ratings and Research. "That all points to the fact that the [earnings](#) should continue to be under pressure."

Bhattacharya estimates about 13 trillion rupees (\$195 billion), or a fifth, of bank loans are already stressed - bigger than the size of New Zealand's economy.

That compares with 8.06 trillion rupees of distressed loans reported as of December or 11.5 percent of India's entire bank debt, meaning more pressure on profits.

Rajan, who wants banks to fully disclose and provide for bad debt by March 2017, is calling for "deep surgery" to clean up the balance sheets.

Investors and analysts have long suspected that Indian lenders, especially the dominant state-run banks, are not disclosing the true extent of their troubled loans to avoid having to raise provisions.

But granular details released for the first time last month by [ICICI Bank](#) and [Axis Bank](#) - India's no. 1 and no. 3 private sector lenders respectively - highlighted the depth of the problem.

Axis Bank disclosed it had put 226 billion Indian rupees of its loans on a 'watch list', and was expecting 60 percent of those to default within two years. That would mean its bad debt could triple from the 60.88 billion rupees reported at end-March.

ICICI Bank said some 525 billion rupees of loans to struggling sectors including steel and power had been put on watch.

Moody's estimates bad loans at 11 state-run banks it rates to be between 10.5 and 12 per cent, compared with the 7.2 per cent reported as of end-December.

"The ability of (state) banks to support economic growth or to provide loans will ultimately depend on how the government will support them in terms of capital," said Alka Anbarasu, a Singapore-based vice president at Moody's.

These state-owned banks account for more than two-thirds of the sector's assets and about 85 percent of bad debts - a major headache for policymakers keen to support a slowing economy.

"It could get worse before it gets better is the sense we have," India Ratings' Bhattacharya said.

Stay on top of business news with The Economic Times App. [Download it Now!](#)



[Live Market](#) [News](#) [Portfolio](#) [Mobile](#) [Live TV](#) [Newsletter](#) [Commodities](#) [Speed](#) [QnA](#) [Blogs](#) [Alerts](#) [RSS](#)

Other Times Group news sites

Times of India | इकनॉमिक टाइम्स
छंदीनामिस टाइम्स | Mumbai Mirror
Times Now | Indiatimes
नवभारत टाइम्स | महाराष्ट्र टाइम्स
ವಿಜಯ ಕರ್ನಾಟಕ | Lifehacker
Gizmodo | Eisamay | IGN India
NavGujarat Samay

Living and entertainment

Timescity | iDiva | Zoom |
Luxpresso | Gaana | Happytrips |
Cricbuzz | Get Smartapp

Networking

itimes | MensXP.com

Hot on the Web

Income Tax Slabs | Budget 2017
Sensex, Nifty Live | Income Tax
Calculation
UP & Punjab Assembly Elections
2017 | Demonetisation
Gold Rate

Services

ads2book | Gadgetsnow | Free Business Listings
Simplymarry | Astrospeak | Timesjobs | Magicbricks | Zigwheels | Timesdeal |
dineout | Filmipop | Remit2india | Gaana | Greetzap | Techradar | Alivear |
Google Play