

Healthy GDP will offer efficient banks room for growth: S&P

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Mumbai, December 28: The government's twin steps of establishing a new bankruptcy process to shorten the time taken for resolving insolvency and improving the ability of public sector banks to take haircuts via higher capital infusions could alleviate asset quality weaknesses, if executed well, according to S&P Global Ratings.

"We view the trend for banking industry risk as stable. The Reserve Bank of India is strengthening regulations and the supervision of banks and non-banking finance companies," the global credit rating agency said.

S&P expects private sector banks and top-tier public sector banks with better franchises, profitability and capitalisation to increase their market share.

The increase in growth in India's nominal GDP, along with a high savings rate, should offer efficient banks room to grow, said the agency. S&P has classified the banking sector of India in Group 5 under its Banking Industry Country Risk Assessment (BICRA).

The other countries in Group 5 are Spain, Ireland, Italy, Panama, Bermuda, Poland, Peru, Qatar, South Africa, and United Arab Emirates. The agency's bank criteria uses its BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in India is 'BBB-'.

S&P observed that banks' asset quality is weak and has been deteriorating in the past four years, accentuated by historically weak foreclosure laws. In terms of industry risk, the banking system's good franchise, extensive branch networks, and large domestic savings support a granular and stable deposit base.

Growth outlook stable

In the agency's view, India's low-income economy and the government's limited fiscal flexibility constrains its economic resilience.

However, the medium-term outlook for India's growth remains healthy due to good demographics, public and foreign direct investments, private consumption, and reforms such as the removal of barriers to domestic trade tied to the imposition of GST.

The aforementioned factors provide sound development opportunities for Indian banks. S&P assessed the risk of rising economic imbalances as low.

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