Clean-up measures lead to a rise in bad loans

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MUMBAI, MAY 14

The bad news from the banking world is beginning to trickle in as they announce their financial numbers for the last fiscal. Huge losses have been reported by many banks. More troubling is the steep rise in non-performing assets.

So far, six large banks (public and private) have reported, on average, a 38 per cent increase in gross non-performing assets during the past year.

These six banks account for about 20 per cent of the total bad loans in the country. More bad news is expected in the week ahead as other major public sector banks (including PNB, Central Bank and Syndicate Bank) declare their results this week.

Almost half the increase in gross NPAs has occurred in the last quarter of the fiscal for all banks. This is partly due to the accelerated recognition that many banks went in to clean up their balance sheets.

A part of this increase in bad loans canbe attributed to the RBI's recasting of its framework for bad loan recognition (withdrawing all earlier schemes that had an element of forbearance such as S4A, CDR, SDR and the like) and nudging banks to come under the Insolvency and Bankruptcy Code (IBC) framework.

The major sectors responsible for the increase in NPA are power, infrastructure and construction, textiles, iron and steel and telecom.

Regulatory action

The rise in NPAs, provisions and consequential losses has invited some regulatory action. One of the relatively smaller banks, Dena Bank, which saw its gross NPAs rise by 29 per cent to ₹16,361 crore, has been put under a lending ban by the RBI under its so-called prompt corrective action (PCA) framework.

Eleven banks are under that scheme already and some in worse condition. There is a possibility of similar action being taken against other banks, too.

Despite the run of bad news, stock markets seemed to rally last week on the presumption that the bottom has been reached and that things will look up from now on.

It might be worth recalling that this is exactly what bank chiefs have been saying for two years every quarter. The reality has, however, been different. Bank chiefs were betting on a full-scale economic recovery and a return to heavy capital investments and expansion (with a lag), but that has not happened.

Credit growth has been tepid last year – growing a mere 8 per cent, and that too, mainly on the retail side. More bad news lies ahead.

Published on May 14, 2018

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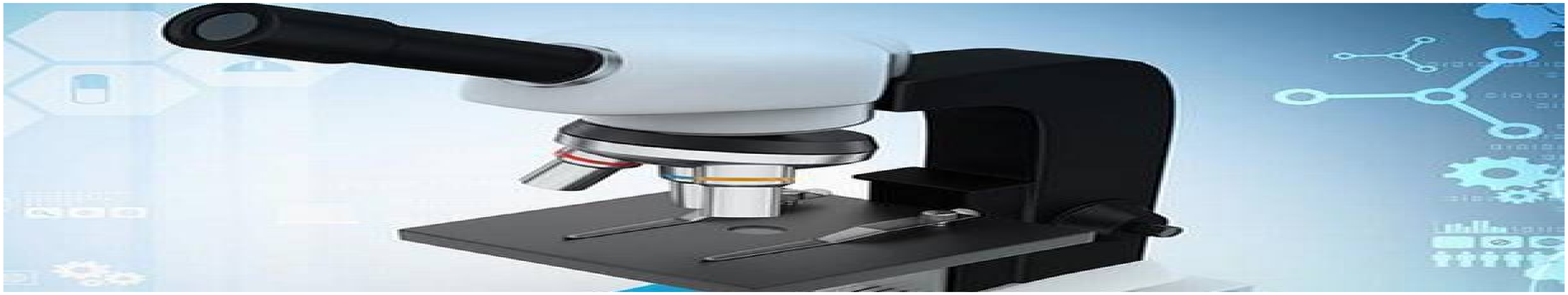

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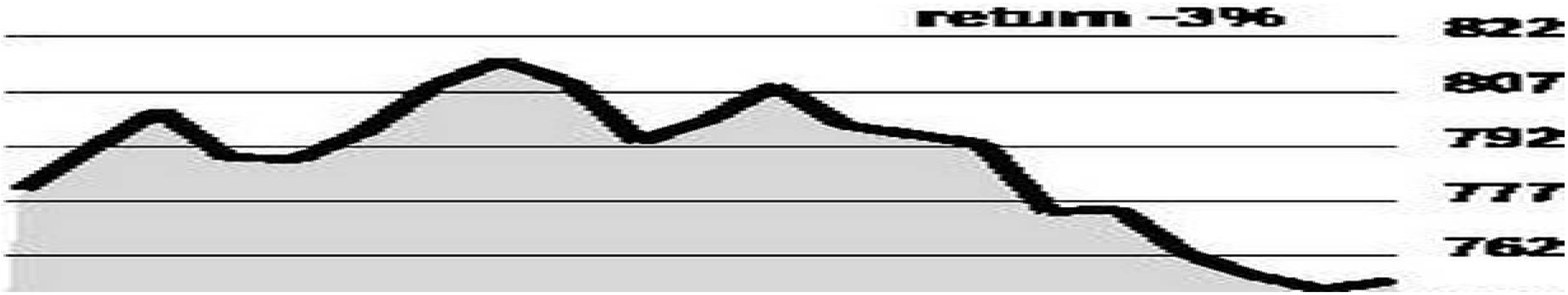

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