

With growth down, credit under squeeze, financial sector may face further challenges; Fitch explains why

By: FE Online

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The financial sector may face further challenges amid the ongoing fall in growth and tight liquidity conditions, a report said. The financial institutions are expected to remain under stress owing to pressure on non-banking financial companies, small and medium enterprises (SMEs) and the real estate sector will continue to put asset-quality pressures on financial institutions in the country, Fitch Ratings said. Weak funding conditions and macroeconomic slowdown may continue to pose a difficult operating environment for the financial institutions, the ratings agency also said. “The Indian financial institutions (FIs) sector will continue to face a difficult operating environment amid the macroeconomic slowdown and weak funding conditions,” the rating agency also said.

The Indian economy is seeing a slowdown for some time now on account of both domestic and global factors. According to first GDP advance estimates by the government, the economy is expected to grow at 5 per cent in FY20. Fitch also said that the real GDP growth is expected to slow down to 4.6 per cent in FY20 as against 6.8 per cent in FY19, led by a squeeze in credit.

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“The potential for contagion for banks, thus, exists as a result of their direct exposure to NBFIs as well as the second-order economic impact of being exposed to the sectors that are adjusting to the credit squeeze as the NBFIs cut back exposure,” the rating agency said. The banking system’s average impaired loans ratio had fallen to 9.3 per cent by 2018-19 from 11.6 per cent at 2017-18, the first decline since 2010-11. The gross non-performing loans of banks may increase to 9.9 per cent by September 2020 from 9.3 per cent in March 2019, according to the latest Financial Stability Report released by the [RBI](#).

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