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Market Watch

Coronavirus impact: Bad loans may surge with private sector banks facing maximum risk

BY [ATMADIP RAY](#), ET BUREAU | UPDATED: MAR 23, 2020, 07.30 AM IST

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KOLKATA: As the industry and policymakers assess the damage to be caused by the Corona virus strike to the [banking](#) system, a ball-park available based on the past forecast shows that in the worst case scenario of macro-economic slowdown, bad loans may surge 120 basis points with private sector banks facing maximum risk.

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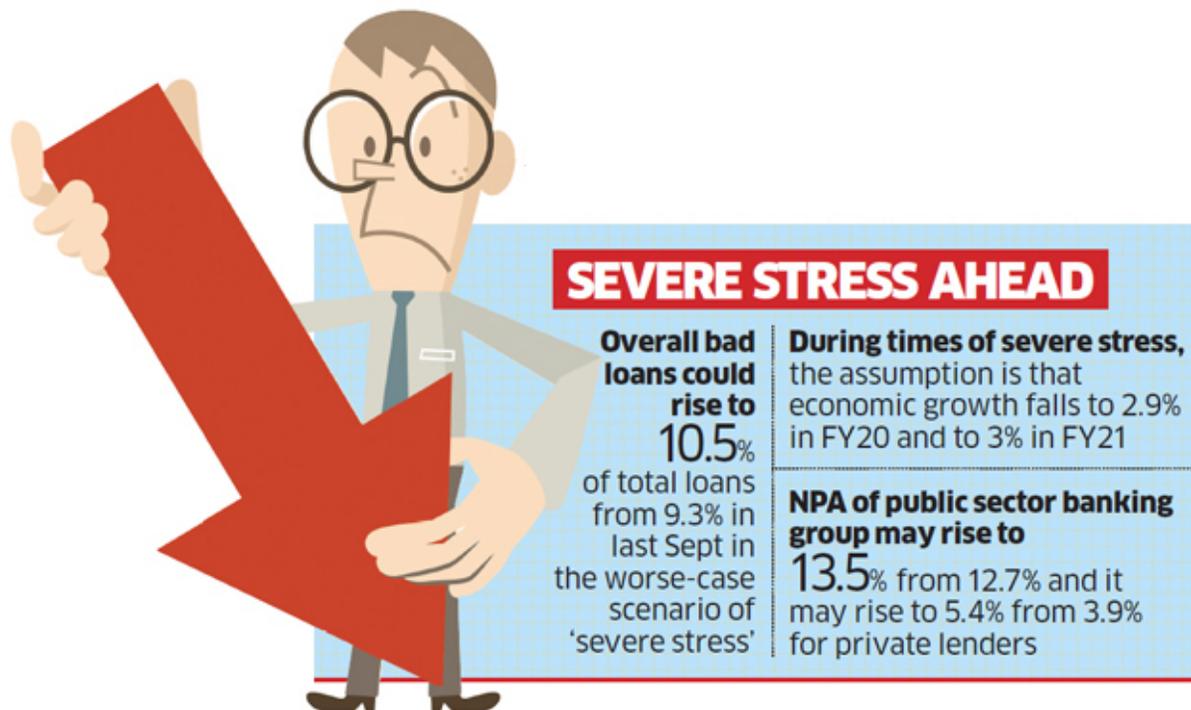
A stress test conducted by the regulator prior to the outbreak of the virus showed that overall bad loans could rise to 10.5 percent of total loans in September 2020 from 9.3 percent in September last in the worse-case scenario of 'severe stress.' In case of 'medium stress,' it could climb to 10.2 percent, forecast from the [Financial Stability Report](#) released in December shows.

"Banks need to monitor loans to retail housing where [EMIs](#) have to be reworked," said Madan Sabnavis, chief economist at CARE Ratings. "SMEs, airlines, hotels, tour operators, restaurants, retail would be impacted the most as demand is nearing nil. Auto consumer durables will witness backlash as demand falls. Construction and real estate will take a negative movement too."

During times of severe stress the assumption is that [economic growth](#) falls to 2.9 percent in fiscal '20 and to 3 percent in fiscal 21. To be sure, the results of stress tests if conducted with the near lock down of businesses due to Corona virus could throw a completely different picture.

Under the severe stress scenario, the financial stability report said the gross NPA of public sector banking group may rise to 13.5 percent from 12.7 per cent and it may rise to 5.4 per cent from 3.9 per cent for private lenders.

As things stand now, the lock down is proposed for the next 10 days which is surely going to throw the economy out of gear. This has raised concerns over job losses and pay cuts. For banking, it may dent in loan growth and lead to higher default.



But make no mistake, the Covid-19 has already started making its impact felt, economists said. The central bank's response to the developments may hold the key.

"Inflation may spike as there will be supply disruptions. It will be interesting to see how RBI adjusts the growth-inflation trade-off," said Partha Ray, professor of Economics at IIMC.

Standard and Poor's slashed India's FY20 growth projection to 5.2% from 5.7%. Fitch Ratings said India may grow at 5% rate this fiscal. India's GDP growth for the third quarter to December 2019 slipped to 4.7 percent

compared to the revised second quarter estimate of 5.1 percent.

The lenders across the spectrum have requested the regulator for easier NPA and provisioning rules to tide over the emerging scenario and likely lack in credit demand.

"Regulatory forbearance may not be a good idea as 2008 experience has shown the flip side of it. And we have to keep in mind that the NPA level in 2008 was way below what it is now. If at all, RBI provides forbearance, it needs to be explicitly recognised with a sunset clause," IIMC's Ray said.

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