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Loan moratorium may widen banks' credit losses: Moody's

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New Delhi: The loan moratorium that India, China and other countries have implemented amid the Covid-19 crisis will give borrowers temporary relief, but will restrain banks from taking proactive recovery action and could widen their credit losses once the directive is withdrawn, according to Moody's Investors Service.

In a report on the Asia Pacific region, Moody's said on Tuesday that while policy stimulus will shore up credit quality for larger companies in sectors including airline and oil & gas, Asia's banking sector profitability will also decline from deteriorating asset quality and lower net interest margins.

"Financial regulators in China, Australia, Malaysia, India and some other Asian economies have enacted debt moratoriums to soften the liquidity crunch for businesses and households. While repayment delays will provide temporary relief to borrowers, these directives will also constrain banks' abilities to take proactive restructuring and recovery actions. These measures also could lead to an even greater build-up of credit losses once the moratoriums are lifted," Moody's said.

The ratings agency said although India's credit profile may be insulated from external risks, a prolonged period of much weaker growth will

raise its debt burden from already high levels. According to the report, policy responses from the governments of the region will help mitigate credit-negative pressures on companies, banks and the broader economy.

However, these efforts are unlikely to prevent deteriorating credit quality and, in some cases, may result in outright defaults for smaller companies with weaker liquidity profiles, it said.

"The coronavirus is exposing vulnerabilities in existing systems and we expect policy space to be constrained for economies with existing fiscal challenges or elevated external vulnerabilities," said Moody's assistant vice president Deborah Tan.