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Market Watch

# Forced lending to cripple banks; NPAs to soar by up to 600 bps in 2 yrs: Fitch

BY PTI | UPDATED: MAY 28, 2020, 10.29 PM IST

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MUMBAI: With incremental bank **lending** making up the bulk of the government's nearly Rs 21 lakh crore stimulus package, lenders face significant **asset quality** challenges which can increase their dud loan ratios by up to 6 percentage points over the next two years, warns a report.

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The impact of forced lending on banks' impaired-loan ratios can be anywhere between 200 and 600 basis points (bps), depending on the severity of stress and banks' individual risk exposures and the higher regulatory provisions, **Fitch** Ratings said in the report on Thursday.

The agency, however, did not offer a break-up of the NPAs between the state-run and private sector banks.

The stimulus measures include extension of the 90-day moratorium on recognition of impaired **loans** to 180 days, in addition to several relaxations in bank lending limits, including allowing banks to fund interest on working capital loans.

"These measures will put a heavy onus particularly on state-run banks which already have very weak balance sheets to bail out the affected sectors, due to their quasi-policy role, considering that much of the so-called stimulus measures is in the form of new loans," the report said.

The nationwide lockdown from March 25 to contain the spread of the COVID-19 pandemic, which has killed nearly 4,800 and infected 1.58

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"We assume that both consumer demand and manufacturing are likely to remain tepid until the rising cases of new coronavirus patients are brought under control.

"The stress is occurring across sectors, but MSMEs and retail are likely to emerge as higher risks due to both stressed industrial activity and rising unemployment," it added.

On the likely [NPA](#) pains, the report said "impaired-loans recognition will now take longer, and the more relaxed and forced lending norms means rising balance-sheet risks, despite their heightened risk aversion and the state-run banks are more at risks due to their already weak earnings and limited capital buffers."

State-run banks account for a bulk of the NPAs, with some of them like IDBI Bank reporting more than a third of total loans as [non-performing assets](#). Being system leaders, they also have a much higher percentage of loans under moratorium than private sector peers.

"There is also a risk that banks may now extend credit to even structurally weak borrowers with dimmer recovery prospects, due to a one-year moratorium on registering fresh insolvencies amid weaker future incomes," Fitch said.

Delays in resolution will potentially exacerbate future losses once risks manifest over FY21 and FY22, it added.

"We believe that capital support is critical for state-run banks given their heightened risks to solvency from future losses, and their inability to raise fresh equity on their own due to their sharply discounted equity valuations. Several of them also have the added challenge of executing mergers and integrating other weaker banks," the report said.

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