

Imperative for banks to expand balance sheets: India Ratings report

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It is imperative for banks to expand their balance sheets and revive credit offtake instead of just concentrating on asset quality, says a report.

The RBI's conscious steps to reduce the repo rate have also lowered the marginal cost of fund-based lending rate across banks, ratings agency India Ratings and Research said in a note.

The central bank has reduced repo rate by 250 basis points since February 2019. However, the transmission of rate cuts has been uneven among private and public sector banks, the note said.

"We believe that it will be imperative for banks to expand balance sheets and simultaneously revive credit offtake, rather than focusing only on asset quality," the agency said in its July edition of Credit Market Tracker.

The recent Financial Stability Report (FSR) released by RBI said credit growth (y-o-y) of banks, which had considerably weakened during the first half of FY20, slid further to 5.9 per cent by March 2020 and remained muted up to early June 2020.

India Ratings said the asset quality of banks would be a critical factor to watch out for from the second quarter of the current fiscal when the loan moratorium ends.

The Reserve Bank of India (RBI) had announced moratorium on repayment of term loans from March 1, 2020 till August 31, 2020.

The FSR said the gross NPA ratio of all banks may increase from 8.5 per cent in March 2020 to 12.5 per cent by March 2021 under the baseline scenario.

"If the macroeconomic environment worsens further, the ratio may escalate to 14.7 per cent under the very severely stressed scenario," it had stated.

The gross and net NPA ratios of bank stood at 8.5 per cent and 3 per cent respectively in March 2020.

The ratings agency said during June 2020, status quo was largely maintained in the liquidity position in the system.

"While some amount of risk aversion was playing out in the market before the pandemic, the credit offtake has taken a severe beating with onset of the Covid-19, resulting sustained, excess system liquidity," the note said.