# Bad Loans to Industry Increase Dramatically for Public Sector Banks

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The Reserve Bank of India (RBI) declares the Financial Stability Report (FSR) twice a year. The FSR for June 2017 was declared late last week.

Up until a few years back, the FSR was one among the many documents published by the RBI during the course of the year. Only serious banking correspondents and analysts followed it. Over the years, as the bad loans problem of banks has gone from bad to worse, the importance of the FSR has gone up and it is now followed by more people than it was in the past. This is because, it is in the FSR that the RBI declares the latest ratio of bad loans for banks.

And how does this latest scene look? Not too good, it must be said.

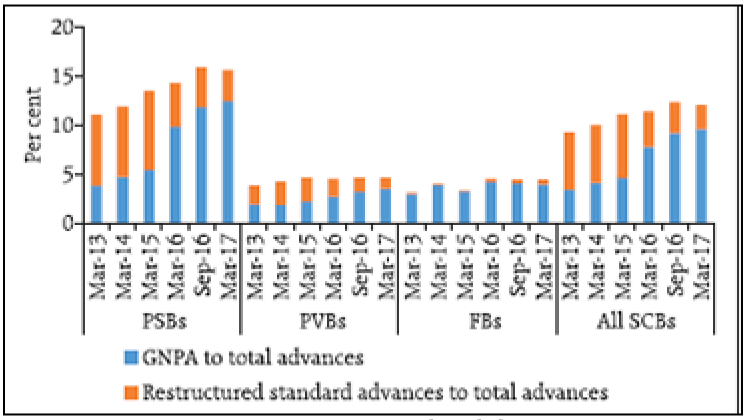
As of March 2017, the gross non-performing advances ratio or the bad loans ratio for banks stood at 9.6 per cent. This basically means that for every Rs 100 of loans lent by banks, Rs 9.6 was not being repaid by the borrowers. A loan is categorised as a non-performing advance once the repayment from the borrower has been due for 90 days or more.

In comparison, the gross non-performing advances ratio had stood at 9.2 per cent in September 2016. Over a period of six months, the ratio has jumped by 40 basis points. One basis point is one hundredth of a percentage.

Given that nearly one-tenth of the bank loans have been defaulted on, it is safe to say that Indian banks on the whole are in a generally precarious position. The situation becomes even more bleak if we look at the government owned public sector banks.

Take a look at Figure 1. The blue part of the bars essentially shows the bad loans ratio over the years. For public sector banks (shown as PSBs in the Figure), it currently stands somewhere around 12.5 per cent ((I wonder why the RBI has not given a precise figure for this), having jumped from around 10 per cent, in March 2016. It was at 11.8 per cent as on September 30, 2016.

Figure 1: Bad loans of public sector banks



Source: RBI Financial Stability Report, June 2017

The situation gets even worse when we look at the loans given by banks to the industry sector. Take a look at Figure 2. The left part of the figure shows the bad loans ratio for industry.

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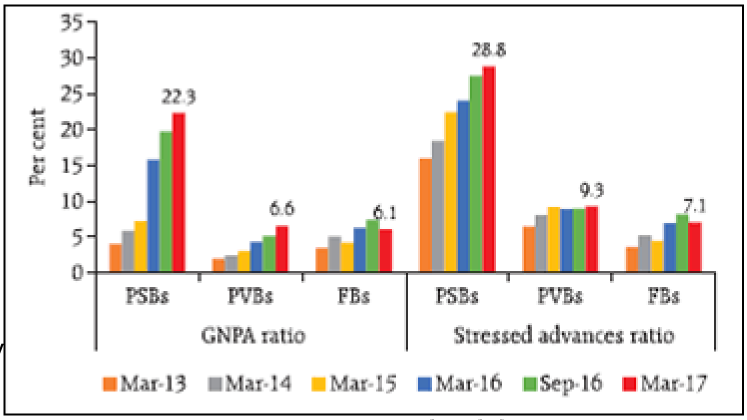


Figure 2: Bad Loans Ratio for Industry

Source: RBI Financial Stability Report, June 2017

As on March 31, 2017, the gross non-performing advances ratio or the bad loans ratio for public sector banks for loans given to industry, stood at 22.3 per cent. This basically means that out of every Rs 100 loans given by public sector banks to the industry, Rs 22.3 has been defaulted on. In comparison, the figure for private sector banks stood at 6.6 per cent. For foreign banks, it was at 6.1 per cent.

As of March 31, 2017, lending to industry formed around 38 per cent of the total outstanding loans of banks.

How were things for public sector banks on this front, as on March 31, 2016? The gross non-performing advances ratio for loans given to industry was at around 15 per cent for public sector banks. It has increased dramatically since then by over 700 basis points.

What has changed between March 2016 and March 2017? The only possible explanation for this massive increase in bad loans of public sector banks is that the banks have had these bad loans for a while. It is only now that they have started recognising these bad loans as bad loans.

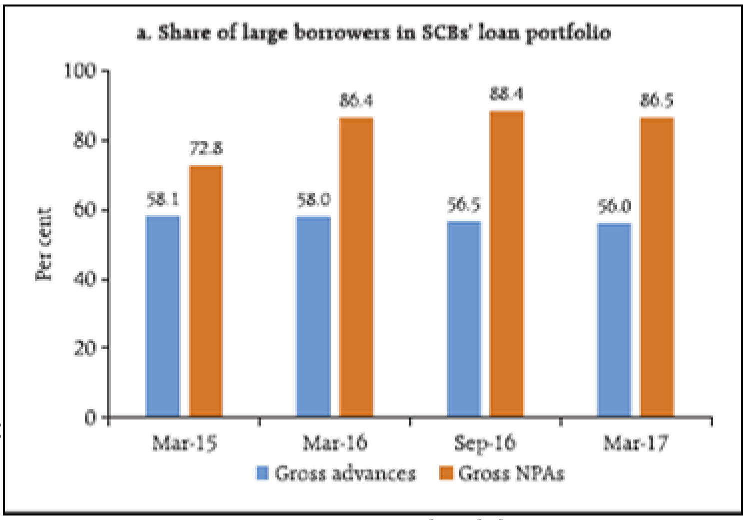
While this is a good thing, the trouble is that no knows where this is likely to end. For instance, this is what the RBI said in the

June 2016 Financial Stability Report: *"Under the baseline scenario, the gross non-performing advances ratio may rise to 8.5 per cent by March 2017 from 7.6 per cent in March 2016. If the macro situation deteriorates in the future, the gross non-performing advances ratio may increase further to 9.3 per cent by March 2017."* The real figure came in at 9.6 per cent.

In the latest Financial Stability Report, the RBI says: *"The macro stress test indicates that under the baseline scenario, GNPAs of SCBs may rise from 9.6 per cent in March 2017 to 10.2 per cent by March 2018... However, if the macroeconomic conditions deteriorate, the gross non-performing assets ratio may increase further under such consequential stress scenarios."*

Also, it is worth pointing out that the large borrowers are responsible for the bulk of the mess. The RBI defines a large borrower as anyone who has loan of Rs 5 crore or more. These large borrowers accounted for 56 per cent of lending and 86.5 per cent of bad loans. This is clear from Figure 3.

Figure 3:




Source: RBI Financial Stability Report, June 2017

When it comes to the hundred largest borrowers they accounted for 15.2 per cent of the loans and 25.6 per cent of the bad loans. Due to various reasons over the years, banks have been unable to recover these loans.

It remains to be seen whether they can do a better job of recovering loans from the largest borrowers in the days to come. We haven't seen the last of this issue yet.