



Impact of Lockdown on Banks

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Why News

- Banks are concerned about the build up of Non-performing Assets (NPAs) as the disruption caused to business operations and supply chains during the 21-day **lockdown** period will take time to repair.
- This is despite the fact that the **Reserve Bank of India** (RBI) has injected fresh liquidity into the banking system and given banks leeway to deal with potential stress in loan accounts.

Non-Performing Asset

- NPA refers to a classification for loans or advances that are in **default or are in arrears** on scheduled payments of principal or interest.
- In most cases, debt is classified as non-performing, when the loan payments have not been made for a **minimum period of 90 days**.
- **Gross non-performing assets** are the sum of all the loans that have been defaulted by the individuals who have acquired loans from the financial institution.
- **Net non-performing assets** are the amount that is realized after provision amount has been deducted from the gross non-performing assets.

Concerns of Bankers

- **Fresh NPAs**
 - The 21-day period lockdown would cause pain to lenders, especially in loan accounts from sectors including **Micro, Small & Medium Enterprises (MSMEs)**, airlines, real estate, auto dealers, gems and jewellery, metals among others.
 - Banks are concerned about MSME loans and those extended to manufacturing sectors, such as auto, steel, renewable energy, as those where fresh NPAs are looming.
 - According to the RBI's financial stability report, the share of large borrowers in scheduled commercial banks' total loan portfolios and their share in GNPA was at 51.8% and 79.3% respectively, in September 2019.
- **Problems Within Different Sectors**
 - Even if the lockdown is lifted on April 14, operations of a number of companies in specific sectors will not see business getting back to normal as the labour has moved out and the production may not be able to restart.
 - Apart from these, capital intensive sectors such as aviation, real estate, consumer durables, and jewellery may take a long time before there is a demand revival.
 - Renewable power is struggling because of complete disruption of supply chains from China, as a result of which they are way behind on project schedules and could face payment issues from their customers, the power discoms.
- **Fear of Extended Lockdown:** Measures by the RBI will provide banks some relief during the next three months, but a buildup of bad loans looks inevitable. While moratorium provides temporary relief to borrowers and helps check the NPAs during that period, an extended lockdown is expected to have a significant adverse effect on the economy.

- **Analysis By Different Rating Agencies**

- **Moody's Investors Service:** It expects deterioration in banks' asset quality due to disruption in economic activity. It has changed the outlook for Indian banking system to negative from stable.
- **According to a report released by Crisil:** The asset classes will see continuing pressures on asset quality due to weaker profiles of borrowers and expectation of only a gradual economic recovery. In study of 35 sectors, both from manufacturing and services, there is a sharp variation in resilience in a post-Covid-19 landscape.
 - **High Resilience Category:** Pharmaceuticals, telecom, Fast Moving Consumer Goods (FMCG), fertiliser, oil refineries, power & gas distribution and transmission are among the sectors comprising nearly 44% of the debt.
 - **Moderate Resilience Category:** Another 52% debt is in sectors such as automobile manufacturers, power generators, roads and construction.
 - **Least Resilient Category:** Around 4% of debt in sectors such as airlines, gems and jewellery, auto dealers and real estate, given the discretionary nature of goods and services, and weak balance sheets.

Source: IE