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Only 4 major nations have higher bad loans than India

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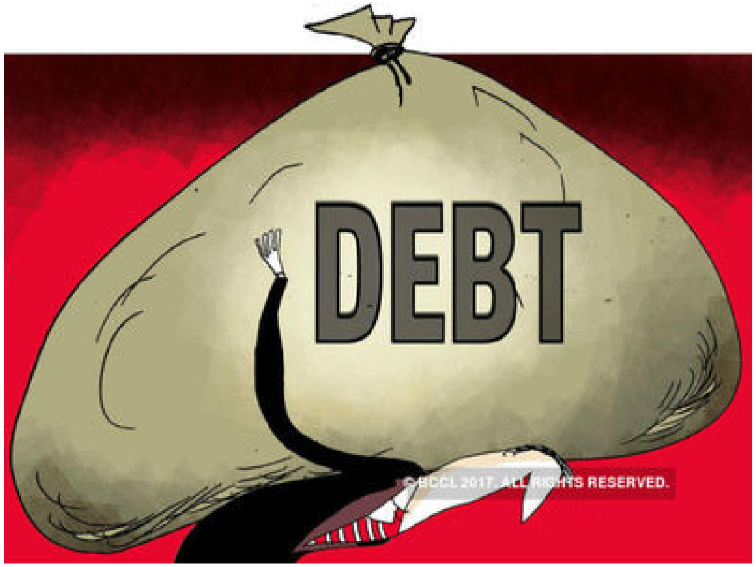
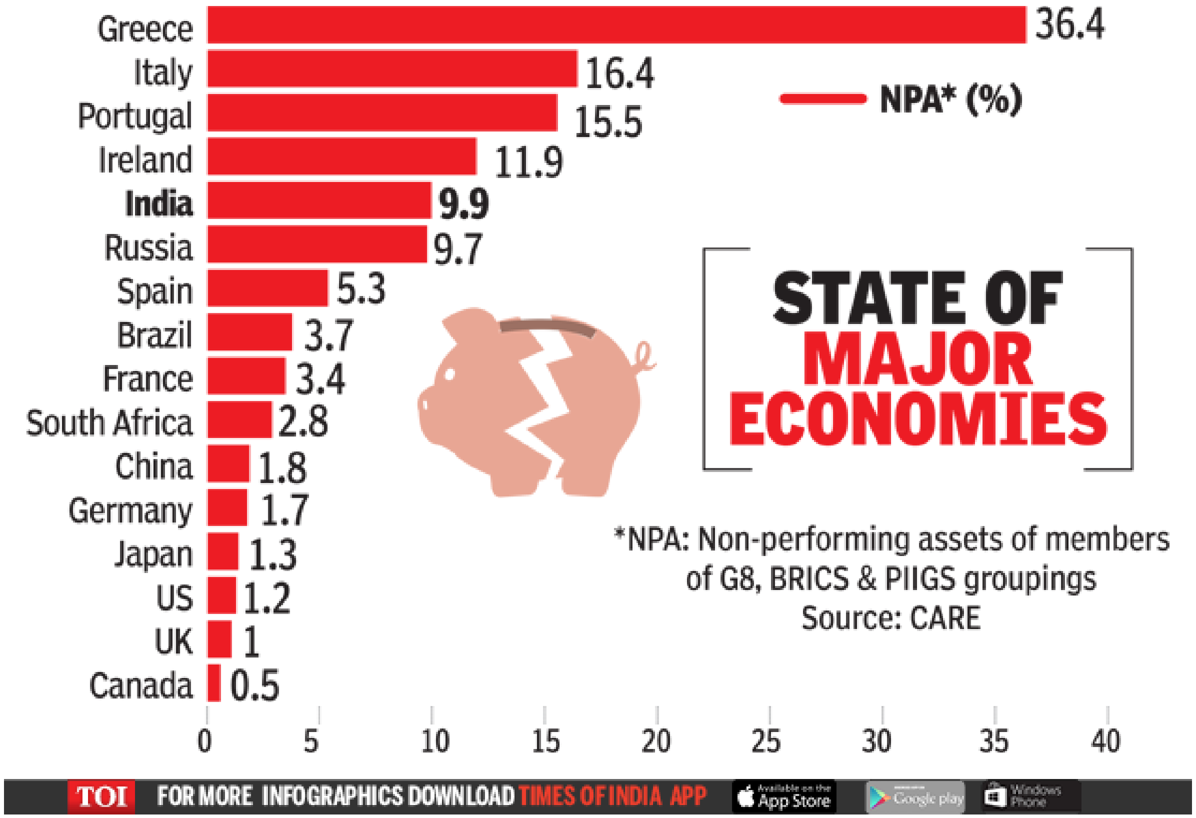


MUMBAI: The 9.85 per cent ratio of bad loans in banks has put India in the group of those nations that have very high non performing assets (NPAs). The only major countries with similar ratios are the troubled EU nations: Portugal, Italy, Ireland, Greece and Spain — commonly referred to as PIIGS.

According to a research report by ratings agency CARE, India's NPA ratio — which excludes restructured assets that are around 2 per cent higher than NPA — is one of the highest in the group of 'high-NPA' nations. The only countries with a higher NPA than India are Portugal, Italy, Ireland and Greece. Even among the troubled PIIGS, Spain has a lesser ratio of bad loans compared to India.



CARE chief economist Madan Sabnavis said in the report, "The seriousness of the NPA problem can be gauged by the absolute level of impaired assets in the system. Ever since the RBI had spoken of asset quality recognition (AQR) in 2015, there was an increase in the pace of recognising these assets. For the European nations, the bad loans are more of a legacy problem whereas for us it is something that got recognised only two years back."

Indian banks started recognising stressed loans as NPAs only after former RBI governor Raghuram Rajan introduced asset quality recognition norms forcing banks to classify stressed borrowers as defaulters. According to Sabnavis, the NPAs have created a twin problem. First, they have rendered banks short of capital and, second, they have reduced banks' capacity to lend for large long-term projects, which is why most public sector banks are now focusing on retail.

The report classifies major economies into four blocks — very low NPA, low NPAs, medium level NPA and high NPAs. The countries with very low level of bad loans are Australia, UK, Hong Kong, Canada and South Korea. Within the emerging market economies, China, Argentina and Chile had low ratios of 1-2 per cent. According to economists, while the bad loan problem in India is serious, the economy has the advantage of being a higher growth economy, which puts it in a better position related to the other high-NPA countries in Europe.