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NPAs, less debt appetite roadblocks for bank lending despite deposit pile-up on demonetisation: Study

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MANGALURU: Despite banks filled with huge deposits following demonetization, a very high level of non-performing assets and reducing appetite for more loans from the over-leveraged industry would come in the way of increased bank lending despite bond yields falling even below the policy interest rates, an ASSOCHAM-CARE ratings joint study has said.

According to an ASSOCHAM-CARE ratings joint study on the 'Indian Bond Market', banks are reluctant to lend to infrastructure projects. "It is in the infrastructure sector which needs to be revived first for a positive ripple elsewhere," ASSOCHAM said.

However, the banks' inability to lend to this sector and other over-leveraged industries like metals, textiles and engineering, has resulted in growth stagnation, the study pointed out. While it strongly advocated popularity of the corporate bond market more so because of the cheap source of funding infrastructure and other critical projects, the ability of the banks to lend in the face of excessive non-performing and stressed assets and demand for the credit remain vital issues.

"Public sector banks have 14.5% stressed loans of their total loan book while the private and foreign banks have this figure at 4.5%. "It has been observed that most of the stressed assets were concentrated in sectors like metals, mining, infrastructure, textiles and aviation that constrained the overall economic growth. Infrastructure contributed to 32.8% of the total stressed loans" in the fiscal 2015-16.

The study noted that the corporate bond market which at \$287 billion or 14 per cent of the country's GDP as of FY 2016 can grow well particularly on account of weaknesses in the banking sectors that have been plagued by high levels of stressed assets. "The Indian corporate bond market has a large untapped potential which has to be harnessed effectively ..." said CARE Ratings managing director and CEO Rajesh Mokashi.

The chamber said that the way the results of the demonetization pan out, it is only then, it may be clear how the entire financial paradigm is re-calibrated. But only excess deposits with the banks and even lower interest may not automatically result in more lending.

Mapping profile of overall bond market, the study said while India boasts of a world class equity market, its bond market is still relatively underdeveloped.

"As in most countries, India too has a more developed and mature government securities market relative to the corporate bond market. ...The government securities has been registering sustained growth over the years, the corporate bond market on the other hand, has been more or less stagnant in the last decade".