Sagging Growth Complicates India's Bad-Debt Clean Up

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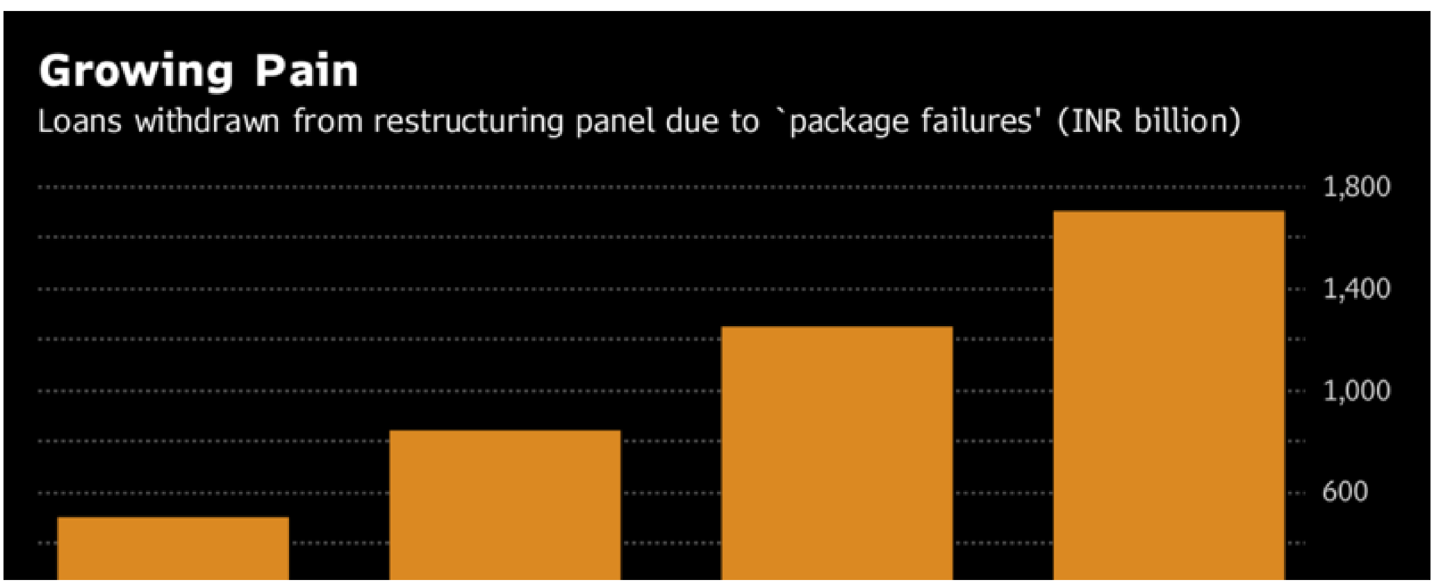
- Loan amount due to 'package failure' has exceeded 2016 level
- Central bank is pushing for 'end game' in bad loan resolution

Sagging economic growth in India is complicating efforts to clean up a mountain of bad debt at the nation's banks.

Loans worth 1.7 trillion rupees ($26 billion) have been withdrawn in total since the 2001 inception <http://www.cdrindia.org/downloads/CDR-RBI-Circular%20-%2023%20August%202001.pdf> of the Corporate Debt Restructuring Mechanism through to the end of August, according to the latest data from the agency that brokers agreements between borrowers and lenders.

That's a net increase of 446 billion rupees from the end of 2016, and already exceeds the 415 billion rupees of loans that couldn't be revamped last year, the data show.



The jump in failures underscore the challenges banks face in rehabilitating their assets with growth in the economy forecast to slow to a four-year low. Lenders are stuck with 1.5 trillion rupees of live cases with the CDR forum, mainly from steel sector. The central bank had asked lenders more than two years ago to choose legal action over the mechanism to tackle the problem.

“There’s excess capacity for some of these borrowers while certain policy changes also contributed to the failures,” said Rajesh Mokashi, managing director at CARE Ratings in Mumbai. “Bankers are feeling the pinch to take haircuts as offers from buyers of non-performing loans are sub-optimal.”

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The record $180 billion of stressed assets in the system is hindering the banks ability to bolster credit at a time when the economy is still suffering from last year’s cash ban and the disruption in supply chains triggered by a sales tax introduced on July 1. Growth has been slowing for the past five quarters and a Bloomberg survey published last month forecast India’s GDP will grow at 6.8 percent in the year to March 2018.

The absence of hard-coded timeline and the failures at banks and lenders’ debt resolution forum has prompted authorities into stronger actions, according to the central bank. Specific measures taken over the past few months will add a sense of urgency <https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/01SP_1109175A4B2A255253477FBB25696E95633563.PDF> to the task, Reserve Bank of India Governor Urjit Patel said last month.

There’s been some progress. The CDR panel has resolved cases involving 137 billion rupees of loans this year compared with 86 billion rupees in 2016, the data show.

— With assistance by Anto Antony, and Divya Patil