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## Loan moratorium: With no immediate resolution in sight, how deep is the debt trap facing borrowers?

Economy



ET Now Digital

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The RBI's loan moratorium has served as a balm for borrowers but the true picture of the health of the banking system may only come into view in the fourth quarter.



### KEY HIGHLIGHTS

- With the COVID-19 pandemic decimating the Indian economy, millions of debt-ridden Indians have been rendered unemployed, throwing into jeopardy any savings they may have had, and even the roofs over their heads
- An S&P Global Ratings report has predicted that bad loans in the banking sector may rise to as high as 10 to 11 per cent of all total loans by 31 March 2022,

Earlier this week, India's apex court adjourned hearing pleas seeking an extension on the loan moratorium implemented by the RBI and the waiving of interest on interest on term loans to December 14.

The moratorium was officially slated to end on August 31 having already been extended by 3 months, but with concerns that the timeframe remained inadequate for borrowers who remain cash-strapped, the Supreme Court had ordered a stay on lenders classifying standard loans as NPAs until it arrived at a ruling.

With the COVID-19 pandemic decimating the Indian economy, millions of debt-ridden Indians have been rendered unemployed, throwing into jeopardy any savings they may have had, and even the roofs over their heads. The RBI's loan moratorium has served as a balm especially for retail borrowers, over 50 per cent of whom have, reportedly, availed of it. Data shows that corporates had greater resilience with only 31 per cent of them opting for the moratorium.

Until now, banks have cautiously studied the stress and fallout from the COVID-19 outbreak, taking measures to improve their capital buffers since March 31. A recent report by CARE Ratings showed that the ratio of NPAs to gross advances actually improved from 8.2 per cent in June to 7.7 per cent in September. In fact, banks have also reported that collection

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ond quarter.

t's directive allowing banks greater leniency in NPA classification is  
ing system. The collection rates declared by banks have left many

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puzzled especially given that auto-debit transaction data in October, as published by the National Automated Clearing House (NACH), revealed that 40.1 per cent of debits had failed as a result of insufficient funds.

One theory posited to reconcile the discrepancy between NACH data and collection rates is that banks may have stepped up their recovery efforts post these auto-debit failures, tracking down borrowers towards collecting EMI payments.

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Nevertheless, an S&P Global Ratings report has predicted that bad loans in the banking sector may rise to as high as 10 to 11 per cent of all total loans by 31 March 2022, from the 8 per cent they were pegged at on 30 June 2020. The report does not, however, distinguish between corporate and retail loans.

These figures appear to be more in line with the reality that borrowers are currently facing. India's unemployment rate has improved markedly from the 27 per cent it stood at in the week ended May 3, however, more recent readings indicate that the recovery may have been shortlived, resulting from the release of pent-up demand following the relaxation of lockdown measures.

The one-time restructuring scheme has also not appeared to gain as much traction as anticipated. According to several reports, the bulk of loan recast requests have come from small and medium-sized enterprises rather than retail borrowers. Analysts have contended that the reason for this may be because the re-structuring allowances may still be inadequate for many borrowers with a cut of a few thousand rupees from an EMI not really amounting to any substantial relief.

As such, the true picture of the banking system is likely to come into view only in the fourth quarter of the year. There is enough reason to believe that it will be a sobering one.

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