

'Domestic economic conditions to support Indian banking sector'

Our Bureau
Mumbai

Global rating agency Moody's said on Tuesday that even as global trade tensions pose risks for the global economy, the Indian banking sector will be able to broadly preserve asset quality as domestic economic conditions remain supportive for growth.

It added that the divergence of loan performance will remain across different product types and lenders.

"We expect the system-wide NPL (non-performing loans) ratio will remain at 2-3 per cent in the next 12 months, compared to 2.5 per cent at the end of December 2024," it said.

In FY25, lenders saw higher slippages in the unsecured loan segments of credit cards, personal loans and microfinance loans, experts say.

System-wide non-performing loans ratio will remain at 2-3% in the next 12 months, compared to 2.5% at the end of December 2024, said Moody's

The asset quality of vehicle loans, Moody's says, will weaken in some pockets as pent-up demand for vehicles post Covid pandemic dissipates and loans mature.

DELINQUENCIES RISE

Particularly, delinquencies have increased for two-wheeler loans, which are more vulnerable than those for passenger or commercial four-wheelers, as younger borrowers with lower in-

come and nascent credit habits account for a large proportion for the former type.

Impairments of unsecured retail loans, including microfinance loans for low-income households, will also remain at a high level in the next few quarters, it said.

CREDIT GROWTH

Further, the RBI's macro-prudential measures have prevented excessive loan growth in the banking system, Moody's said.

In April, the RBI issued draft guidelines to curb risks from loans against gold, which have also expanded briskly amid soaring gold prices.

"We expect these measures to slow the growth of this loan segment. We expect system-wide loans to grow 11-13 per cent in the fiscal year ending March 2026, compared to an average of 17 per cent for March 2022-March 2024," Moody's said.