

Banks' asset quality may deteriorate moderately in 12-18 months: Moody's

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Mumbai, 12 March

Global Rating agency Moody's on Wednesday said the asset quality of Indian banks may deteriorate moderately up to 3.0 per cent in the next 12-18 months after substantial improvements. But the rating agency kept the outlook for the banking system "stable".

The system-wide non-performing loan (NPL) dropped to 2.6 per cent at end of September 2024 from 7.3 per cent in March 2024 due to recoveries and write-offs of legacy problem loans.

The increase in NPL will be due to some stress in unsecured retail loans, microfi-

nance loans and small business loans, Moody's said in a statement. The slippage ratios and loan-loss provisioning costs are expected to increase somewhat from cyclically very low levels. This is due to a host of factors like the moderation of economic growth in recent quarters, the impact of past rises in interest rates and the aging of unsecured retail loans.

Yet unsecured retail loans make up just 10 per cent of total system-wide loans, and banks have built sufficient loan-loss

reserves against NPLs. The quality of corporate loans will remain healthy, supported by deleveraging and earnings growth, it added.

Referring to conditions for banking business, Moody's said it expected the operating environment for banks to remain favourable, helped by government capital

expenditure, tax cuts for middle class income groups to boost consumption and monetary easing. The growth in India's real gross domestic product (GDP) is expected to

exceed 6.5 per cent in the fiscal year ending March 2026 (FY26).

The banking system in India has been facing pressure on the liabilities side. According to Moody's it expects loans to grow in tandem with deposits, and hence, the system-wide loan-to-deposit (LDR) ratio to remain around 80 per cent.

RBI data showed the credit to deposit ratio stood at 79 per cent as on February 21, 2025 compared to 78 per cent a year ago.

The bank credit expanded by 11.0 per cent Year-on-Year basis while deposits grew by 10.3 per cent Y-o-Y till February 21, 2025.

Moody's said it expected the operating environment for banks to remain favourable, helped by government capex and tax cuts