

Banks' lower credit costs to boost GDP: Goldman Sachs

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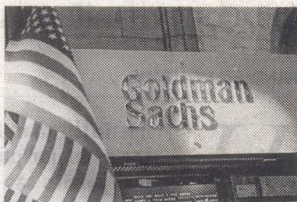
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A decline in credit costs of Indian banks is likely to boost the capacity of lenders to extend loans and, in turn, boost growth in the world's fastest-growing major economy.

Analysts at Goldman Sachs Group said India's measures to improve the recovery of bad loans, and a recapitalisation plan equivalent to 1.1 per cent of gross domestic product, will lower costs for lenders.

We estimate that credit costs - how much banks set aside each year to deal with bad loans - could fall from a peak of 230 basis points of banking system assets, or around ₹3.3-lakh crore, in FY18 to 120 basis points, or ₹1.9-lakh crore, in FY20, the analysts said in a note.

This decline in credit costs would boost bank profitability, reduce headwinds to bank capital growth, and enhance the capacity of the banking system to extend credit, wrote the analysts, led by Jonathan Sequeira. The analysts estimate the decline in costs will raise loan



growth by 140 basis points, which, in turn, should bolster investment growth by 200 basis points.

All in all, that should translate into a 60 basis points boost to economic growth in the financial year ending March 2020.

India has the highest stressed-asset ratio among the world's major economies.

While bank loans have been growing at a steady pace of 14 per cent year-on-year, investments in Asia's third-largest economy have lagged.

The latest data from the Centre for Monitoring Indian Economy show that the total value of new projects in the quarter that ended in March fell to ₹1.99-lakh crore from ₹3.12-lakh crore in the three months through June.