

## Spike in bad loans worries RBI

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RBI on Thursday released its Financial Stability Report, which assesses the ability of the financial sector to survive various types of stress. The stress test results show that bad loans will reduce bank profits and may also force some of them to raise capital. Besides rising bad loans, the financial system could come under stress because of a falling rupee and fleeing foreign investors.

RBI's stress test shows that if bad loans were to increase 150%, 20 banks representing 46% of bank lending in India would be forced to seek capital support as their core capital adequacy would fall below the prescribed 6%. Considering that gross non-performing assets of banks were at 2.01% in March 2011, a 150% increase would translate to a gross NPA ratio of 5.02%.

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(Times of India)