MARKETS

Bank bad loans fall to a multi-decade low of 2.3%, says RBI

The RBI's Financial Stability Report shows Indian banks in their healthiest shape in decades, though it notes write-offs did much of the work.

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PSU banks lead gains as bad loans fall to a decade low

In 60 seconds

1. Gross NPAs of banks fell to 2.3% in March 2025, a multi-decadal low.
2. Net NPAs were about 0.5%.
3. Write-offs were a major factor in reducing bad loans over the past five years.
4. Under the RBI's baseline stress test, gross NPAs could rise to 2.6% by March 2027.

Bad loans at Indian banks fell to their lowest level in decades, the Reserve Bank of India said on Monday in its latest Financial Stability Report.

The numbers

The gross non-performing asset (NPA) ratio of scheduled commercial banks fell to 2.3% in March 2025, from 2.6% in September 2024, a multi-decadal low. Net NPAs, after setting aside money for likely losses, were about 0.5%.

The figures are a sharp turnaround from the late 2010s, when a wave of bad corporate loans left many banks, especially public sector banks, struggling with high losses.

How it happened

The RBI noted that write-offs, where banks remove hopeless loans from their books, were a major reason for the fall in bad loans over the past five years. Better recoveries, stronger lending standards and the insolvency process also helped.

> *Indian banks are in their best shape in decades, but the RBI is watching for new risks.*

Looking ahead

The central bank's stress tests suggest that under its baseline scenario, gross NPAs for a sample of large banks could rise slightly to 2.6% by March 2027, and higher under severe stress. It said banks have enough capital to absorb such shocks.

Healthier banks are good news for borrowers too: banks with clean balance sheets are better able to lend to businesses and households, supporting economic growth.