
RISE OF NON-PERFORMING ASSETS AND ITS IMPACT ON BANKING SECTOR IN INDIA

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ABSTRACT

When India opened up its economy in 1991, there was an impression that its banks were not operating effectively. The importance of banks to the economy was realized during the financial crisis, and as a result, the banking industry needed to become more efficient and competitive. In order to examine India's banking industry and suggest changes, the Ministry of Finance led by then-finance minister Dr. Manmohan Singh, established the Narasimham Committee. The Committee observed that the way assets were categorized under the current health code did not comply with global norms. As a result, in the financial year 1992-1993, a prudential system was implemented that included income recognition, asset classification, and bad debt provisioning. It was evident that the issue of rising Non-Performing Assets (NPAs) was getting more severe. Both the global economy and the Indian economy were booming at this time. When they saw this situation, a lot of Indian companies borrowed enormous sums of money in order to seize the chance and expand. Due to the ease with which loans could now be obtained, corporations became highly leveraged, suggesting that external borrowings rather than internal promoter equity accounted for the majority of financing. However, as the economy stalled after the 2008 global financial crisis, the ability of these companies to repay debt declined. This resulted in financial strain for both the corporate sector, which takes on and must repay these loans, and the banking sector, which provides loans. The country's policy was reinforced by the Reserve Bank of India. In order to grant good asset quality remission to the banking industry, it passed certain regulations.

Keywords: Non-Performing Asset (NPA), Reserve Bank of India (RBI), Small and Medium-sized Enterprises (SME)

INTRODUCTION

An asset is anything that one owns. A bank's holdings of any financial security are regarded as assets. A loan is considered an asset by banks since the interest we pay on them represents one of their main sources of revenue. A loan or advance that has principal or interest payments past due for more than 90 days is known as Non-Performing Assets or NPA. A bank or other financial institution's balance sheet lists non-performing assets. The lender will compel the borrower to sell any assets pledged as part of the debt agreement if they do not make payments for an extended period of time. In the event that no assets were pledged, the lender may write the asset off as a bad debt and subsequently sell it to a collection agency for less money. A lender's ability to meet regulatory requirements and maintain their financial stability may suffer if their balance sheet contains non-performing assets.¹

The frequency of NPAs can have significant effects on the efficiency of capital markets, the general state of the economy, and the stability of financial institutions. Regulators and legislators closely monitor NPA as an important indicator for assessing the health of a financial institution. Governments and financial institutions alike now have major concerns regarding the management and resolution of NPA, which has led to the creation of numerous frameworks, mechanisms, and regulatory interventions to address these issues. Recognizing the origins, outcomes, and procedures for handling NPAs is important. In the discourse surrounding NPAs, various strategies are discussed that are intended to reduce risks, stabilize the financial system, and build a stronger banking industry. These strategies range from regulatory changes to debt restructuring programs.

CLASSIFICATION OF NON-PERFORMING ASSETS:

Generally, lenders give an asset a grace period before designating it as non-performing. The NPA will then be divided into either of the following sub-categories by the lender or bank:

1. Sub-Standard Assets:

An asset is considered sub-standard if its NPAs have not been paid for a year or less. In these situations, the current market value of the security charged or the current net worth of

¹ Shrishti Bhardwaj, Non-Performing Assets, Smallcase (Oct. 11, 2023) <https://www.smallcase.com/learn/npa-non-performing-assets/> accessed 15 November 2023

the guarantors/borrowers is insufficient to guarantee full recovery of the bank debt. To put it another way, these assets will have clearly laid out credit weaknesses that put the debt's liquidation at risk and are characterized by a clear possibility that the banks will experience some loss if the flaws are not fixed. Assets that have had their interest and principal terms renegotiated or rescheduled after production began should be categorized as sub-standard and should stay in that category for a minimum of 12 months after the renegotiated or rescheduled terms are adequately fulfilled. Simply stated, an asset's classification should not be raised just because of a reschedule unless this requirement is accurately met.

2. Doubtful Assets:

Assets that have not performed for more than a year are regarded as doubtful. As opposed to sub-standard assets, rescheduling does not always grant the bank the authority to raise the level of an advance. A loan that is categorized as doubtful has all the inherent flaws of a sub-standard loan in addition to the extra feature that, with the information now available about the data, terms and worth, it is very unlikely that the full amount will be collected or liquidated.

3. Loss Assets:

These are assets that are not performing and have been non-paid for a long time. Banks must acknowledge that the loan will never be paid back and report a loss on their balance sheet. The outstanding balance on the loan needs to be fully written off. Even though the bank views the loan as a complete loss, they may still make a legitimate effort to recover some of the money, although the probability of success is very low.²

CAUSES FOR RISE IN NON-PERFORMING ASSETS:

1. Economic Downturn and Business Cycles:

Reductions in business activity brought on by economic downturns or slowdowns may affect borrower's capacity to repay loans. People lose their jobs and businesses experience lower profits when the economy is down overall, as it does during a recession. They find it difficult to repay loans as a result. The 2008 global financial crisis and following domestic

² Types of Non-Performing Assets, Aliceblue (Oct. 26, 2023) <https://aliceblueonline.com/types-of-non-performing-assets/> accessed 20 November 2023

economic difficulties affected a number of industries, which in turn led to an increase in NPAs.³

2. Borrower Fraud and Mismanagement:

Many borrowers are seen to be fully capable of repaying the loan, but they choose to withhold payment on purpose. It is possible that some businesses overleveraged themselves by taking on excessive amounts of debt. A number of factors, including fraud, corporate governance problems, and poor management choices, can lead to loan default and financial strain.⁴

3. Weak Credit Appraisal and Lack of Monitoring:

Lenders may extend credit to unworthy applicants. Banks may extend loans to borrowers who are not creditworthy due to flaws in their credit appraisal procedure and risk management procedures. There might not always be an adequate evaluation of a business or project's viability. Banks are at risk of loans that are not repaid if they are careless. Being well-known or working for a large corporation should not entitle someone to a loan without the customary approval processes. The ability of each party to repay the money must be established.

4. Changes in Economic Environment:

Borrowers may find it more challenging to repay their loans as a result of changes in the financial market, such as an increase in interest rates or a drop in commodity prices. The financial health of businesses can be impacted by modifications to economic policies, regulatory frameworks, or legal proceedings, which may result in a rise in NPA. A variety of industries may be impacted by regulatory changes, such as those pertaining to environmental permits or licensing matters.⁵

5. Sectoral Issues:

Certain industries, like steel, electricity, and infrastructure, have had difficulties that have

³ Naina Rajgopalan, Non-Performing Assets (NPA): Definition, Causes & Impact, Freo (May 14, 2021) <https://freo.money/blog/what-is-non-performing-asset/> accessed 22 November 2023

⁴ Rajgopalan, *supra* note 3

⁵ Bhardwaj, *supra* note 1

impacted their financial stability. For instance, the profitability of businesses in these sectors may be impacted by policy uncertainty, global market fluctuations, and project implementation delays, which may result in problems with loan repayment. Project implementation delays, particularly in industries like infrastructure, can have an impact on business cash flows. There could be a number of causes for this delay, such as policy changes, difficulties acquiring land, and obstacles related to regulations.

6. Stalled Judiciary and Legislative Procedures:

The courts in India gave judgments that were not in favor of businesses. Businesses were badly impacted by the rulings, particularly the steel, power, and mining sectors. In addition, the businesses encountered difficulties in acquiring land, which caused numerous projects to go on hold and many current NPA defaulters to not make their repayments. Timely recovery of bad loans may be impeded by obstacles in the insolvency resolution process and delays in legal proceedings.

7. Global and Domestic Macroeconomic Factors:

Variations in interest rates, currency exchange rates, and commodity prices around the world can have an effect on a company's ability to service loans and overall financial health. Similarly, changes in interest rates and inflation are examples of domestic macroeconomic factors that affect borrower's ability to repay debt.⁶

8. Natural Calamities:

Unforeseen events, such as natural disasters, can negatively affect businesses and their capacity to fulfill financial commitments, ultimately leading to NPAs. India frequently experiences significant natural disasters, which leads to loan default by borrowers. Typically, farmers depend on rainfall to help their crops thrive. But the farmer's production level is lowered by the irregular rainfall, making it impossible for him to pay back the loan.⁷

⁶ Rajgopalan, *supra* note 3

⁷ *Id.*

IMPACT OF NON-PERFORMING ASSETS ON BANKS, BORROWERS AND ECONOMY

I. IMPACT OF NPA ON BANKS:

1. Erosion of Bank Profitability:

Banks suffer financial loss when borrowers default on their loans because they are unable to collect the principal and interest. The bank's profits are reduced by these losses, and its capital position is weakened. Any bank that experiences a persistent increase in NPAs must deal with a chronic condition that causes severe crises as the banks attempt to stabilize.

2. Higher Cost of Capital:

A certain amount of capital must be kept aside by banks as a buffer against potential NPA losses. Banks may find that they need to set aside more capital for provisions as the amount of NPA rises, which could weaken their capital base. The banks will raise interest rates in order to raise revenue and cover costs. Consequently, this impacts bank's capacity to lend money and satisfy capital adequacy regulations.

3. Impact on Lending Capacity:

The bank's capacity to lend money may be restricted by high NPA levels. Funds will be limited in the Indian security markets because fewer banks will be willing to grant loans if they are unsure that the outstanding balance will be recovered, which is a result of the rising NPA. A bank's ability to provide new loans to individuals and businesses is lowered when a significant amount of its assets are invested in non-performing loans. This can hamper economic growth.

4. Risk of Systemic Instability:

The general stability of the economic system may be at risk if NPAs are prevalent throughout the banking sector. A banking industry that has a large amount of NPAs may find it difficult to sustain economic growth and may be more vulnerable to systemic shocks. Due to low takeoff funds, the NPA will raise the cost of capital, increase inflation and consequently reduce growth, all of which will have an immediate impact on the Indian

economy.

5. Investor Confidence:

A high NPA ratio has the potential to undermine investor trust in the banking industry. For lenders, NPAs are a warning sign of declining asset quality. NPAs make it necessary to concentrate on asset quality recognition. To find possible stressed assets, banks may need to enhance their risk management procedures and carry out exhaustive due diligence. A bank's borrowing costs could rise as a result of credit rating reductions, which could reduce investor confidence. It is similar to having an impossible-to-get rid of black mark on your credit history.

6. Regulatory Scrutiny:

NPAs are closely monitored by authorities such as RBI. High NPA levels that continue to persist may draw more regulatory attention, which may result in interventions and corrective measures.

7. Reputation at Stake:

A bank's reputation could be harmed and customer trust could be undermined by excessive NPAs. People may remove their deposits from banks if they begin to doubt their capacity to collect loans and move their company elsewhere. It could further erode the bank's financial position.

8. Government Interventions:

The government may need to intervene in order to deal with NPAs, especially when it comes to public sector banks. For banks with high NPAs, recapitalization and government funding may be necessary to increase their capital base.⁸

II. IMPACT OF NPA ON BORROWERS:

1. Creditworthiness:

A borrower's creditworthiness and credit score are negatively impacted when their loan

⁸ Bhardwaj, supra note 1

becomes a non-performing asset. This will make it harder for them to get credit or loans later on. Banks may become more cautious and strict in their lending practices as they struggle with high NPA levels. As a consequence of this, there may be less credit available to both people and companies. Lender's increased perception of risk may make it harder for borrowers to get loans or result in higher interest rates. A background of default or financial distress may make it even harder for people and businesses to get new credit in a setting where banks are skeptical due to high NPAs.

2. Limited Financial Options:

If a borrower has NPAs, it can be difficult for them to get new funding. Their capacity to satisfy their personal or business's financial needs may be hampered by their inability to obtain new loans or credit facilities. Banks may tighten their credit standards in an effort to reduce the risks associated with NPAs. It might be harder for borrowers to get their loans approved, and if they do, the terms and conditions might be stricter.

3. Negative Credit Score:

A borrower's credit history will reflect the loan's NPA status, which may have long-term repercussions. When determining creditworthiness, banks and other financial institutions, in addition to other lenders, have access to this data. NPAs in the credit history may result in more expensive interest rates, more stringent terms for borrowing money, and fewer options.

4. Business Expansion and Investment:

NPAs can have an effect on businesses that goes beyond simply higher interest rates. Decreased credit availability could make it more difficult for them to invest in new initiatives, grow their business, or upgrade their technology, which could hurt their ability to compete in the market. Small and Medium-sized Enterprises may encounter unique difficulties because they frequently depend significantly on bank financing. A decreased lending to the SME sector due to NPAs can hinder their capacity to grow, invest, and create jobs.

5. Asset Seizure:

People who have loans, whether they are personal or house loans, might find it difficult to

fulfill their repayment commitments if the economy worsens as a result of the banking industry's problems with NPA. In such a setting, job losses or uncertain income can make people's financial situations worse. In certain situation, banks may be able to reclaim the amount of the loan that remains by seizing and selling collateral that the borrower has provided. This may lead to the borrower suffering large financial setbacks in the event that valuable assets are lost.

6. Legal Consequences:

The bank may file a lawsuit to collect the unpaid balance if a borrower has default on their loan. The legal process may result from this, which would increase the borrower's financial burden in addition to harming their credibility and reputation.⁹

III. IMPACT OF NPA ON ECONOMY:

1. Financial Stability:

Excessive amounts of NPAs impair bank's ability to lend money and stimulate economic growth by weakening their financial stability. Banks that have a sizable percentage of non-performing loans could suffer capital erosion, which would affect their capacity to absorb losses and carry out their financial intermediation function.

2. Credit Crunch and Economic Growth:

A credit crunch may result from high NPA levels because banks will become more cautious when making loans as they deal with the weight of non-performing loans. Decreased credit availability can limit people and company's financing options, which can cause investment and economic activity to slow down. NPAs limit credit availability, which makes it challenging for people and companies to get loans for personal, business, or investment purposes.

3. Capital Erosion:

NPAs weaken bank's capital foundation since it requires that they make allowances and devote resources for loan losses. This may result in a shortage of capital, requiring the

⁹ Bhardwaj, supra note 1

government's help or equity dilution to restock the capital.

4. Unemployment:

Businesses are hampered in their operations by NPAs as they battle to pay back loans, which results in business closures, employment losses, and decreased output. Growth and overall economic output are thus impacted. Businesses that primarily depend on credit for expansion, like SMEs, could be especially impacted.

5. Investor Confidence:

A high NPA ratio can make investors less confident in the economy as a whole. Foreign and domestic investors may start to exercise caution when allocating capital, which could have an impact on the financial markets and hamper economic expansion. Low credit availability and economic uncertainty brought on by high NPAs can affect consumer confidence. This could result in lower consumer spending, which would have an impact on the economy's different sectors.

6. Fiscal Implications:

Recapitalization or other interventions by governments may be necessary to assist banks that are dealing with high NPAs. Because they might need financial support or bank bailouts to stabilize banks, NPAs put a strain on government finances. This restricts the government's ability to set aside money for other developmental goals and increases the burden on the fiscal budget.

7. Global Perception:

High NPAs can have a detrimental effect on how the world community views a nation's economic situation. Credit ratings, foreign direct investment, and access to global capital markets could all be impacted. It is possible that resources that could have been used more effectively will instead be directed toward solving the NPA problem. The overall efficiency of the economy may be hampered by this inefficient resource allocation.

8. Asset Quality Recognition:

Lending may initially slow down as banks concentrate on resolving current problems as a

result of efforts to fix up the banking industry by identifying and addressing NPAs. Nonetheless, these actions are essential to the financial system's long-term stability and well-being.

9. Monetary Policy:

The economic challenges presented by high NPAs might require monetary policy adjustments by central banks. To tackle inflationary pressures and promote economic stability, monetary policy changes such as interest rate adjustments and other measures may be taken.¹⁰

INITIATIVES BY THE GOVERNMENT OF INDIA AND THE RESERVE BANK OF INDIA FOR NPA RESOLUTION

1. Credit Information Bureau:

Credit Information Bureaus (CIBs), also known as credit reporting agencies, are essential to the financial sector because they gather and preserve data on credit for both individuals and companies. Credit reporting companies do not have direct control over the resolution or recovery of distressed assets. Rather, their function is to furnish lenders with a thorough credit history of borrowers, encompassing any defaults or non-performing assets. Banks and other financial organizations can use this information to manage credit risk and make well-informed lending decisions. The Credit Information Bureau (India) Limited, or CIBIL, is one of the well-known credit information bureaus in India. Based on a person's credit history, CIBIL obtains and keeps track of credit information from numerous financial institutions and uses it to calculate credit scores.¹¹

2. SARFAESI Act (2002):

A significant piece of legislation in India that aims to give banks and other financial institutions more authority to handle NPAs and speed up the loan recovery process is the "Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002". The SARFAESI Act offers secured creditors a legal framework for

¹⁰ Bhardwaj, supra note 1

¹¹ CIBIL: Overview and Product Offerings, Cleartax (June 29, 2022) <https://cleartax.in/s/cibil>, accessed 28 November 2023

enforcing their security interests without the need for court intervention. The secured creditor must notify the borrower in writing of the default and their intention to enforce the security interest prior to initiating any further action. There is a chance for the borrower to correct the default. In order to handle appeals, the Act calls for the creation of Debt Recovery Appellate Tribunals (DRATs) and Debt Recovery Tribunals (DRTs). Banks may assign NPAs to Asset Reconstruction Companies (ARCs) for resolution under the SARFAESI Act.¹²

3. Debt Recovery Tribunal:

The purpose of Debt Recovery Tribunals is to enable customers of banks and other financial institutions to quickly retrieve unpaid debt from them. DRTs were established following the passage of the 1993 Recovery of Debts Due to Banks and Financial Institutions Act (RDDBFI). DRTs are primarily designed to give people, businesses, or any other entities that have taken out loans from banks and other financial institutions a quick and effective way to recover outstanding debts, or NPAs. The goal of establishing DRTs was to relieve the load on regular courts, speed up the debt recovery process, and offer a dedicated venue for these kinds of cases. But because they are insufficient in number, they also experience a delay in processing cases, with many of them taking longer than two to three years to resolve.¹³

4. Asset Reconstruction Company:

A specialized financial company known as an Asset Reconstruction Company (ARC) purchases NPAs or bad loans from banks and other financial institutions for a price that is mutually agreed upon. ARC's main objective is to assume control of and manage these troubled assets in order to extract value from them. By using this procedure, banks can simplify their balance sheets and concentrate on their primary banking operations. The SARFAESI Act outlines the framework within which ARCs work in India. With the help of this legislation, they can seize assets that are secured and use their legal right to enforce the security interest without the need for court intervention. 14 new ARCs were granted licenses by the RBI following the 2002 SARFAESI Act amendment. These businesses

¹² SARFAESI Act, 2002- Applicability, Objectives, Process, Documentation, Cleartax (Oct. 11, 2023) <https://cleartax.in/s/sarfaesi-act-2002> accessed 28 November 2023

¹³ Debts Recovery Tribunals (DRTs), <https://drt.gov.in/#/aboutus> accessed 28 November 2023

were established to recover value from troubled loans. Prior to the passage of this legislation, lenders had to go through the lengthy and drawn-out legal system to enforce their security interests.¹⁴

5. Corporate Debt Restructuring:

Negotiations between the financially troubled company and its lenders, typically banks and financial institutions are a part of the corporate debt restructuring process. The objective is to come up with a restructuring plan that addresses the company's financial difficulties and is acceptable to both parties. Debt restructuring can take many different forms, such as lowering interest rates, giving a repayment a pause, extending the repayment period, or turning some debt into equity. Restructuring a company's debt is ultimately intended to aid in its recovery and financial stability. When the financial strain is relieved through effective restructuring, the business should be able to return to regular operations and pay its debts.¹⁵

6. 5:25 Rule:

This is also called 'Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries'. Banks can match project cash flow with long-term loans of 20–25 years if they use the 5:25 strategy, which allows them to refinance the loans every 5–7 years. It is anticipated that this will make long-term infrastructure investments sustainable by lining up financial flows with payback schedules.¹⁶

7. Joint Lenders Forum:

A special coalition of lending banks called the Joint Lender's Forum was established to expedite the process of making decisions in the event that an asset (loan) valued at more than Rs 100 crore becomes a stressed asset. In 2014, RBI released guidelines for the establishment of JLFs in order to manage stressed assets effectively. RBI's 2014

¹⁴ National Asset Reconstruction Company Ltd., <https://www.narcl.co.in/> accessed 28 November 2023

¹⁵ Will Kenton, Corporate Debt Restructuring: What it is, How it works, Investopedia (June 30, 2021) <https://www.investopedia.com/terms/c/corporate-debt-restructuring.asp> accessed 28 November 2023

¹⁶ Neeraj Prasad, RBI: Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries, Tax and Regulatory Affairs (Aug. 20, 2014) <https://taxandregulatoryaffairs.wordpress.com/2014/08/20/rbi-flexible-structuring-of-long-term-project-loans-to-infrastructure-and-core-industries/> accessed 28 November 2023

“Framework for Revitalizing Distressed Economy” guideline includes instructions for forming a JLF. Reviving stressed accounts is JLF’s primary goal. When an account has the potential to become NPA, the JLF is required to start corrective actions.

8. Mission Indradhanush:

A comprehensive program called Mission Indradhanush was created to address the difficulties Public Sector Banks (PSBs) face. Its goal is to strengthen PSB’s competitiveness against banks in the private sector by restructuring them. It aims to improve credit quality and lessen political meddling in PSBs in order to spur economic development. The mission’s seven elements, which include the following, are designed to help public sector banks (PSBs) overcome obstacles:

- a. Appointments: The separation of the roles of Managing Director and Chairman, with the appointment of a non-executive Chairman to act as a check and balance after open and equitable selection procedures.
- b. Bank Board Bureau: The Bureau, which took over from the Appointments Board, is made up of eminent experts and officials who are in charge of selecting whole-time Directors and non-Executive Chairmans for PSBs and developing growth plans.
- c. Capitalization: Sufficient capital inflow to keep a safe buffer above Basel III requirements, with debt-ridden banks receiving a phased in infusion of Rs 25,000 crore.
- d. De-Stressing the PSBs: Addressing stalled projects and rising NPAs, facilitating policy decisions, restructuring current loans, setting up DRTs, and supporting asset reconstruction.
- e. Empowerment: Empowering banks to make autonomous decisions in line with business interests, putting in place efficient Grievance Redressal Mechanisms, and allowing for hiring flexibility in terms of personnel.
- f. Framework of Accountability: The introduction of Key Performance Indicators (KPIs) to assess PSB performance and simplify vigilance procedures to enable prompt fraud investigation and resolution.

g. Governance Reforms: Decisions about risk management, process digitization, capital optimization, and financial inclusion were made starting with the “Gyan Sangam” conclave.¹⁷

9. Strategic Debt Restructuring:

Banks may choose to convert a portion of a stressed borrower’s debt into equity shares under the Strategic Debt Restructuring scheme. As a result, the lenders are able to purchase stock in the business. A time frame for the management transition and the debt-to-equity conversion is laid out in the SDR plan. This window of time is intended to guarantee an efficient and timely resolution of stressed assets. The SDR mechanism can be accessed by banks subject to certain guidelines and conditions set by RBI. The purpose of these guidelines is to guarantee uniformity and transparency in the scheme’s implementation.¹⁸

10. Asset Quality Review:

By detecting and resolving any possible risks connected to NPAs and other distressed assets, an Asset Quality Review aims to maintain transparency in the financial system. The review evaluates bank’s ability to cover possible losses related to NPAs. In order to preserve bank’s financial stability and safeguard the interests of depositors and other stakeholders, adequate provisioning is necessary. Regulators may implement the necessary regulatory measures in response to the AQR’s findings. This can entail pressing banks to raise more money, carry out remedial actions, or reorganize their business to address flaws that have been found.

11. Insolvency and Bankruptcy Code (2016):

In order to address the problem of NPAs and to provide a deadline-driven framework for the resolution of insolvency and bankruptcy proceedings, the Indian government enacted the comprehensive Insolvency and Bankruptcy Code (IBC) in 2016. In an effort to satisfy

¹⁷ Mission Indradhanush for Banks, Testbook (June 15, 2022) <https://testbook.com/ias-preparation/mission-indradhanush-for-banks> accessed 28 November 2023

¹⁸ Vikas, What is the Strategic Debt Restructuring Scheme, CreditMantri (Mar. 22, 2021) <https://www.creditmantri.com/forum-what-is-the-strategic-debt-restructuring-scheme/> accessed 28 November 2023

the needs of all parties involved, including creditors and debtors, the IBC boosts entrepreneurship and credit availability.

CONCLUSION

The increase in NPAs in India raises serious concerns about the financial stability and overall health of the economy of the nation. The rising NPA levels have significant effects on the economy. They put a pressure on the banking industry, making it harder for it to lend money and spur economic expansion. This may lead to a deceleration in investment, employment generation, and general economic progress. India's NPA rate is rising due to a number of factors. These include downturns in the economy, problems with policies, poor risk management procedures, shortcomings in corporate governance, and outside variables like world economic trends. It is essential to comprehend these causes in order to create strategies that effectively address the problem. Numerous measures have been implemented by RBI and other regulatory bodies to solve the NPA problem.¹⁹

To meet the changing challenges, regulatory frameworks must be continuously monitored and adjusted. Effective and prompt resolution procedures are essential for managing current NPAs. For a quicker resolution, these mechanisms need to be improved and simplified. A comprehensive and cooperative effort involving the government, regulatory agencies, financial institutions, and the corporate sector is needed to address the increase in NPAs in India. To lessen the effects of NPAs and promote a stronger, more resilient financial system, it will be essential to put into place efficient measures, draw lessons from the past, and adjust to shifting economic conditions. In the end, reducing the negative effects of NPAs on the banking industry will require developing a culture of prudent risk management in conjunction with a strong regulatory framework. This strategy promotes a stronger and healthier banking environment that fosters sustainable economic development in addition to preserving the stability of financial institutions.

¹⁹ Ahita Paul, Examining the Rise of Non-Performing Assets in India, PRS Legislative Research (Sep. 13, 2018) <https://prsindia.org/theprsblog/examining-the-rise-of-non-performing-assets-in-india> accessed 29 November 2023