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THE SEVERITY OF THE NPA CRISIS IN INDIA.

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Abstract

The objective of the paper is to discuss the severity of NPA crisis in India which the banks in India are now facing, especially, the public sector banks.It is one important and mounting issue in the recent scenario. The Economic survey points out that the mounting NPA is one of the major problems in major banks and this is especially, with regards to the public banks.Because of this under performance of the public sector banks the entire bank sector in India is affected. One major reason for this under performanceis the governance issues in banks.To overcome this problem the government has initiated IBC (Insolvency and Bankruptcy Code) also the government hasannounced Mission Indradhanush focusing on important reform mechanisms like recapitalization, creation of Banking Board Bureau, and creating framework of accountability recapitalization packages for the public sector banks.It will infuse more capital in to the public sector banks in order to revive their performance.It has huge economic impact.In this situation the banks will be able to provide onlylesser credit. Lesser creditinfusion in to the economy means lesser investmentin the economy and lesser investment will lead to lesser productivity capacity of the economy,output will come down and this will reduce the GDP of the economy which means the economic growth would be affected.This will also affect the health of the banks.The banks will be under stressedand because of this NPA problem isprimarily in the public sector banks the government finances are under stress. Majority of the shares in the public sector banks are held by the governmentand the governance of these banks is an important responsibility of the government. The government finance mean the public finance. The government should come up with the policy initiatives in order to improve the governance challenges.

Key words*: NPA, GDP, Economic Growth, Recapitalization, Investment.*

Introduction:

A sound financial system plays a critical role in the growth and development of any economy. Given that India is a bank based or dominated financial system, a healthy banking sector is inperative for greater financial intermediation as it plays a significant role in the overall growth and development. The deterioration of the asset quality of the Indian banking sector in recent years is a cause of concern as it indicates growing stress in the banking system. As a result, substantial stress has built up in the banking system. As per the Reserve Bank of India (RBI), the Stressed Advances (SA) ratio in banking sector is 12.2 per cent and the Gross NonPerforming Advances (GNPA) as ratio to gross advances has risen to 10.2 per cent as of September 2017 (RBI, Financial Stability Report, December 2017). It is found that the problem is much deeper in case of the Public Sector Banks (PSBs). The ratio of Gross NonPerforming Advances (GNPA) to gross advances of the PSBs was as high as 13.5 per cent as of September 2017. On the other side, the financial health of the Private Sector Banks is found to be comparatively in a better shape; however, in recent years, there has been substantial growth of bad loans in the private banks. The growing incidence of bad loans has serious implications for the banking sector and economy. (Das&Rawat 2018).

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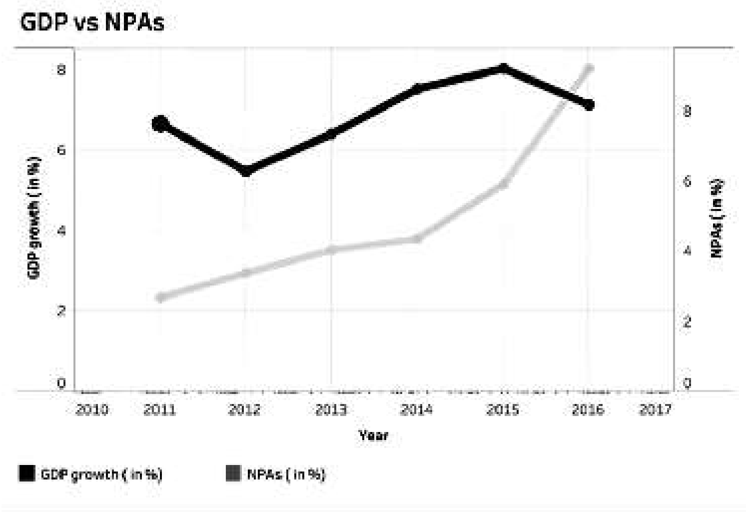
What are NPAs?

The origin of this crisis rest back to eleventh five year plan (2007-12).The eleven five year plan had a plan to allocate 500 billion for infrastructure development and majority of this fund have been taken from bank loans. But due to the delay in execution of various projects related to infrastructure, the entities related to infrastructure could not pay this loan or principal amount so the bad loan proportion had increased and it reached a peak. Thus,from 2007 onwards this crisis startedgrowing. Now it has a very big concern to the RBI and the Government of India.A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days or more. Then it will be aNPA or bad loan. Bad loans arise when banks make poor lending decisions. NPAs arise when banks lend to clients who default on their repayment.

Figure:1



(Source:www.google.com)

It should also be noted that India's bad loans problem could hold economic growth to ransom. Figure 1highlights that economic growth tapers off with a spike in the bad loan ratio. While economic output has been laggard over the past few quarters owing to disruptive policies such as demonetization and the implementation of the goods and services tax (GST), the lacklusterperformance of India has pulled down banks with greater defaults from corporate clients. The gross NPA ratio has spiked from 5.884% in 2015 to 9.6% in 2017 while economic growth has slumped in the corresponding period (www.thehindu.com).

How has the government reacted to the NPA crisis?

Various measures have been taken to overcome this crisis. The Financial Resolution and Deposit Insurance (FRDI) Bill is the latest attempt to overcome decisively the bad loans with which banks are saddled with. Previous endeavors to this end have been moderately successful. To regain outstanding loans, a slew of legislations including the IBC (Insolvency and Bankruptcy Code), the SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) Act, and the RDDBFI (Recovery of Debts due to Banks and Financial Institutions) were instituted. Debt

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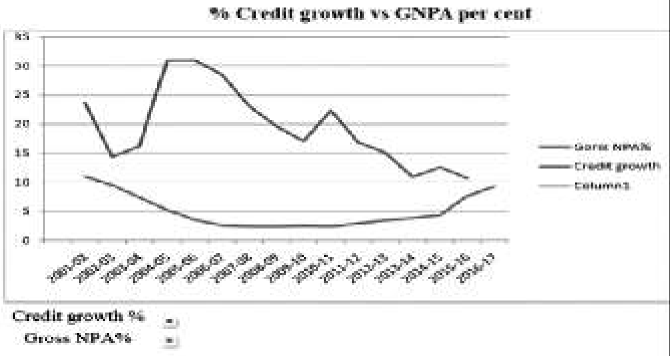
Recovery Tribunals (DBT) were also set up to fast-track proceedings.

Table: 1 Gross NPA ratios and Credit Growth

Figure:2

	GNPAs Ratios	Credit Growth
2001-02	11	23.6
2002-03	9.5	14.4
2003-04	7.4	16.2
2004-05	5.2	31
2005-06	3.5	31
2006-07	2.6	28.5
2007-08	2.4	23.1
2008-09	2.4	19.6
2009-10	2.5	17.1
2010-11	2.4	22.3
2011-12	2.9	16.9
2012-13	3.4	15.1
2013-14	3.8	10.9
2014-15	4.3	12.6
2015-16	7.6	10.7



(Source: Narang 2018)

According to the RBI, in the four-year period between "'April 2014 and April 2018, Rs 3.16 lakh crore has been written off, while only Rs 32,693 crore of the outstanding amount has been recovered. As on September 30, 2018, besides the PSUs, there were only 528 borrowers who had NPAs of Rs 6.28 lakh crore, while only 95 of them had defaults exceeding Rs 1,000 crore. While no questions are being asked about the 'economic viability' of the write-offs of a handful of corporate waivers, a lot of heat is being generated over farm loans. Meanwhile, gross NPAs have increased by a whopping 11.2 per cent, reaching Rs 10.39 lakh crore in 2017-18, and only Rs 40,400 crore have been recovered through the much-touted Insolvency and Bankruptcy Code (IBC) and Sarfaesi Act. The surge in NPAs is happening despite providing an economic stimulus of Rs 18.60 lakh crore to the industry in the past decade. It was in 2008-09 that the government started a stimulus package of Rs 1.86 lakh crore to the industry at the time of global economic meltdown in 2008-09, a package that still continues. In simple terms, the industry is getting a direct income support every year (The Tribune 4 January 2019).

Asset Quality of Indian Scheduled Commercial Banks:

In recent years, there has been growing incidence of bad or defaulted loans in the Indian banking sector. Bad loans or defaulted loans in the banking system went up substantially beginning 2013-14. The ratio of NPAs to total bank advances started showing an upward trend beginning 2009 - 10, though till 201314, the rate of NPA was even lower than the World average (Figure 3).

Between 2009-10 and 2013-14 NPA as percentage of gross advances averaged 3 percent, which was lower than the World average (Figure 2).Since 2013-14,while the World average level got stabilized at around 4 percent of the gross bank loans, in India it started increasing at an alarming rate. Between 2014-15 and 2016-17, the rate of NPA went up from 4.3 per cent to 9.6 per cent, at an average rate of more than 7 per cent (Table 9). In terms of value, the volume of NPA has gone up substantially from Rs. 59,400 crore in 2004-05 to Rs. 7,90,268 crore in 2016-17. However, the fearing factor remains to be the accumulation of stressed assets by PSBs.

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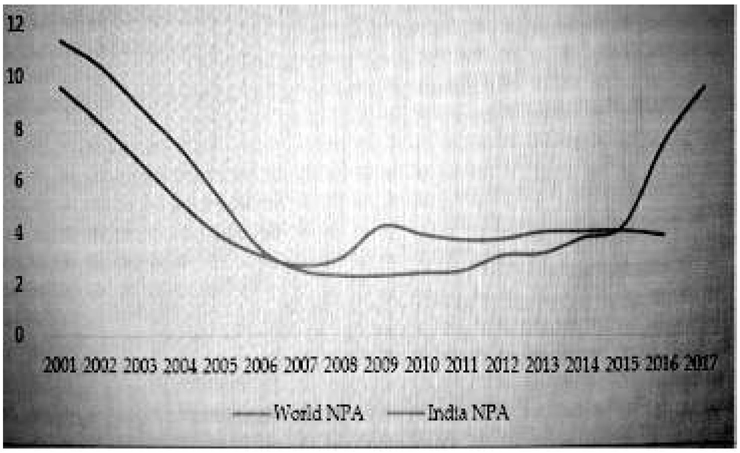

Figure 3: **Bank Non-Performing Loans to Total Gross Loans (%): World Average and India (%)**

(Source:Global financial StabilityReport,IMF)

Moving forward, banks require to do forensic audit for ascertaining the end use of funds. They should use Big Data Analytics and other IT based solutions for doing proper due diligence about the borrower and his businesses like fintech companies are doing. Artificial Intelligence(AI) can be leveraged to predict default at least one year in advance with confidence of 80 per cent. A fintech company like D2K technology of Navi Mumbai has developed such a software and results have been remarkable. Banks have to fine tune their HR policies to train the young work force, which at present lacks experience, and upgrade their skills.The government on its part has to appoint professionals on the Board of Banks having domain knowledge and sufficient experience of Bank's functioning. Selecting retired executives like MD and ED having impeccable track record on the bank Board is worth examining. To execute prompt recovery government will have to be few more NCLTs (National Company Law Tribunal) and large number of DRTs (Debt Recovery Tribunal) as present benches are woefully short to achieve this objective. Strength of judges can be increased to cope up with the workload. With the coming insolvency of individuals, proprietors and partnership firms the need will be acutely felt.Emerging scenario after Insolvency and Bankruptcy Code has kicked in, will change the borrowing culture and make lending, in future by the banks, much safer. Banks, definitely, will heave a sigh of relief. Kudos to the Government for the paradigm shift. The mindset of borrowers will change for sure. (Narang 2018)

Conclusion:

In conclusion, the severity of NPA crisis of public sector banks in India is one important and mounting issue in the recent scenario. If this scenario persists for a longer time, it may adversely impact the solvency position of the banks. The increase in NPAs can have a potentially adverse impact on the

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economy through a reduction in loan growth which is critical to investment. As a result, substantial stress has built up in the banking sector.Majority of the shares in the public sector banks are held by the government and the governance of these banks is an important responsibility of the government. The government finance mean the public finance. The government should come up with the policy initiatives in order to improve the governance challenges.

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