

Declining NPAs in India

Posted at: 28/03/2025

Declining NPAs in India: A Banking Sector Turnaround

Context

Finance Minister **Nirmala Sitharaman** announced that **gross NPAs** of scheduled commercial banks dropped to **2.5% in September 2024**, the lowest in years. **Public sector banks (PSBs)** recorded their **highest-ever net profit of ₹1.41 lakh crore**, with further growth expected.

What are NPAs?

A loan becomes an **NPA** when a borrower **fails to repay principal or interest** for a specified period.

RBI Definition:

- **Term Loans:** Overdue for **90+ days**.
 - **Overdraft & Cash Credit:** Exceeds **sanctioned limit** for **90+ days**.
 - **Agricultural Loans:** Unpaid for **two crop seasons (short-term)** or **one crop season (long-term)**.
-

Categories of NPAs

- **Substandard Assets:** NPA for **less than 12 months**.
- **Doubtful Assets:** NPA for **more than 12 months**.
- **Loss Assets:** **Unrecoverable loans**, though not officially written off.

Causes of NPAs

Internal Factors

- Poor loan assessment by banks.
- Misuse of funds by borrowers.
- Wilful defaults by corporates.
- Weak loan monitoring.

External Factors

- Economic downturns.
- Policy delays in projects.
- Global financial crises.
- Natural disasters affecting farmers.

Impact of NPAs

- **Lower Bank Profits:** Reduced income from interest.
 - **Credit Crunch:** Banks hesitate to lend, slowing growth.
 - **Investor Concerns:** Weak banks deter investments.
 - **Higher Public Burden:** Government may need to **recapitalize banks**.
-

Measures to Reduce NPAs

Legal & Regulatory Steps

- **SARFAESI Act (2002):** Allows banks to **seize and auction assets**.
- **IBC (2016):** **Fast-tracks** resolution of bad loans.
- **PCA Framework:** Restricts weak banks to prevent further NPAs.

Institutional Solutions

- **ARCs:** Buy NPAs and recover dues.
- **Bad Bank (NARCL, 2021):** Takes over **large NPAs** for structured resolution.

Bank-Level Reforms

- **Stronger loan screening** before approval.
- **Restructuring options** for stressed borrowers.
- **One-time settlements** for quick resolution.

Conclusion

India's **NPA levels have significantly improved**, strengthening financial stability. Continued **policy reforms, risk management, and faster resolution** will ensure long-term economic resilience.

