

# Declining NPAs in India

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## Declining NPAs in India: A Banking Sector Turnaround

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### 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.

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### 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)**.
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### 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.

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## 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.

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## 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**.
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## 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.

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### 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.

