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Theinvestigationoftheeffectsofincreasingnon-performingassetsontheIndianeconomypriorto COVID-19.

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Strongbankingsectorisoneofthemostsignificantprerequisiteofstrongeconomybecauseitchannelsthesavingsintotheinvestment.Theeconomyofacountrydependsuponsoundbankingsysteminthecountry.Anycrisisinthebankingsectoritdirectlyaffecttheeconomyofthecountry.ForeconomicdevelopmentofacountryweneedasoundbankingsystembutnowadaysbankingindustryarenegativelyaffectingtothesocietybecauseoftherisingofNon-PerformingAsset(NPAs) .NonPerformingAssetmeansanyassetwhichstopsgivingreturnstoitsinvestorsforaspecifiedperiodoftime.Thisbadperformanceisnotagoodsignandcanresultin crashing of banks as happened in the sub-prime crisis of 2008 in the United States of America. Also the NPA problem in India is worst when comparingother emerging BRICSEconomics. For the last a few years the NPA of banks is increasing tremendously. NPAs in public sector banks increasedby aboutRs 10.2 lakhcrorebetweenMarch2015-2018fromRs3,23,464crore,asonMarch31,2015,toRs10,35,528crore,asonMarch31,2018.SeveralstepshavebeenundertakenbytheRBIandthegovernmentofIndiatocurbtheincreasingNPAofIndianbanks,butthesestepshavenotbeenprovedtobesuccessful.

Now a day the increasing NPA has become the burning issue in banking sector. If we are not controlled this situation it impact on Banks, Industries and Economy of thecountry.HigherNPAratiotremblestheconfidenceofinvestors,depositors,lendersetc.Italsocausespoorrecyclingoffunds,whichinturnwillhavedeleteriouseffecton the deployment of credit. The non-recovery of loans effects not only further availability of credit but also financial soundness of the banks thissituation causes for theeconomic recessioninthe country.To overcome thisproblemRBI andBanks shouldcoordinate eachother anddevelopthe rulesandregulationfor lending andrecoveringofloansshouldbeimproved.Thenonlythe NPAswouldreduceinthecountry.

Keywords:Bank,Nonperformingasset,Economicrecession

INTRODUCTION:

Banking sector playsa important role in the economic development of the country by restructuring the banking industry anycountry cancontrol the economic activity inthe country. Reforms in India has progressed promptly on aspects like reduction in statutory reserve requirements, interest rate deregulation, asset classification, incomerecognitionand prudential norms forinterest rates. But it could notmatchthe pace withwhich it was expected to. The accomplishment of these norms at the executionstages without restructuring the banking sector as such is creating havoc, The major problem which banking industry are facing is increase ofnon-performing assets anddifficulttofindthereasonsfor mountingofnon-performingassets.

During pre-nationalization period and after independence, the banking sector remained in private control Large industries who had their control in the managementof thebanks were utilizing major portion of financial resources of the banking system and as a result low priority was accorded to priority sectors. Government of Indianationalizedthebankstomakethemasaninstrumentofeconomicandsocialchangeandthemandategiventothebankswastoexpandtheirnetworksinruralareasand togiveloansto priority sectorssuch as smallscaleindustries, self-employedgroups, agricultureand schemesinvolving women.Toacertainextentthebankingsectorhasachievedthismandate.LeadBankSchemeenabledthebankingsystemtoexpanditsnetworkinaplannedwayandmakeavailablebankings eriestothe

largenumber of population and touch every strata of societyby extending credit totheirproductiveEndeavour's.Thisisevidentfromthefactthatpopulationperofficeofcommercialbankhascomedownfrom66,000intheyear1969to11,000in2004.Similarly,shareofa dvancesofpublicsectorbankstoprioritysectorincreasedfrom14.6%in1969to44%ofthenetbankcredit.Thenumberofdepositaccountsofthebankingsystemincreasedfrom over3croresin1969toover30crores.Borrowedaccountsincreasedfrom2.50lakhstoover2.68crores.

LITRATUREREVIEW

Accordingto astudy by Brownbridge(1998), most of the bank failureswere causedbynon- performingloans. Arrearsaffectingmorethanhalf the loanportfoliosweretypicalofthefailedbanks.Manyofthebaddebtswereattributabletomoralhazard:theadverseincentivesonbankownerstoadoptimprudentlendingstrategies,inpartic ular insiderlendingandlendingathighinterestratestoborrowersinthemostriskysegmentsofthecreditmarkets

Roma Mitra et.al (2008), A stable and efficient banking sector is an essential precondition to increase the economic level of a country. This paper tries to model andevaluate the efficiency of50 Indian banks. The Inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compareefficiencyofthebankingsectorinIndia.Theanalysisissupposedtoverifyorrejectthehypothesiswhetherthebankingsectorfulfillsitsintermediationfunction sufficientlytocompetewiththeglobalplayers.Theresultsareinsightfultothefinancialpolicyplannerasitidentifiespriorityareasfordifferentbanks,whichcanimprove theperformance.Thispaperevaluatestheperformanceof BankingSectorsinIndia.

OBJECTIVESOFTHESTUDY

TostudythetrendofNon-PerformingAssetsduringlast10yearsTodeterminethefactoraffectingNon-PerformingAssets

TofindouttheimpactoneconomybytheNon-PerformingAssets

TofindtheeffectivenessofrecoverytechniquesadoptedbytheBanksforNPAsTo suggestmeasuretoreduceNon-PerformingAssetsinbanks.

RESEARCHMETHODOLOGY:

ThepresentstudyisanattempttoexaminetheimpactofNon-PerformingAssetsoneconomyofthecountryThepresentstudymainlyreliesonthesecondarydatacollectedfromvariespublishedarticles,RBIwebsites,Governmentsites,annualreportsofcommercialbank,otherbankingsectorrelatedarticlesandbooks.

BANK:

The term bank has originated from the term ‘Banchi’. In olden days, the traders of Italy who performed the job of exchanging money were known as Banchi or Bancheribecausethetablewhichtheyusedformakingpaymentwascalledabanchi.AbankdealsinmoneyinthesamewayasabusinessmandealsingoodS.Banksarebusinessenterpriseswhichdealinmoney,financialinstrumentsandprovidefinancialservicesforapricecalledinterest,discount,commissionetc.

HISTORY:

InIndia,thebankingsystemisasoldasearlyVedicperiod.ThebookofManucontainsreferenceregardingdepositsadvances,pledgepolicyofloan,andrateofinterest.Fromthebeginningof 20thcenturybankinghasbeensodevelopedthatinfact,hascometobecalled“LIFEBLOOD”oftradeandcommerce.Withthedawnofindependence,changesofvastmagnitudehavetakenplaceinIndia.AfterindependenceIndialaunchedaprocessofplannedeconomicactivityinordertoovercomethemultitudeofproblemsitfacedasanunderdevelopednation.Theincreasingtempoofeconomicactivityleadstotremendousincreaseinthevolumeandcomplexity of banking activity. Therefore, the role of banks has had to expand at a fast pace. The banking system, the most dominant segment of financial sector,accountsforover80% of the funds flowing through the financial sector A banking sector performs three Primary functions in an economy: The operationof the payment system,themobilization of savings and the allocation of savings to investmentprojects. By allocating capital to the highest value use while limiting the risk and cost involved, thebankingsectorcanexertapositiveinfluenceontheoveralleconomy,andthusofbroadmacro-economicimportance.TheoriginoftheIndianbankingindustrymaybetracedtotheestablishmentofbankofBengalinCalcutta(nowKolkata)in1786.ThegrowthofbankingindustryinIndiamaybestudiedintermsoftwobroadphases.

Pre-independence(1786-1947)andPost-independence(1947tilldate).ThePost-independencephasemaybe

further dividedintothree sub phases suchas pre-nationalization period(1947-1969). Postnationalization period(1969 to1991) andPost-liberalization period(1991tilldate).

TypesofBanks:

PUBLICSECTORBANKS

Publicsectorbanksaretheonesinwhichthegovernmenthasamajorholding.PublicSectorBanksdominate75%ofdepositsand71%ofadvancesinthebankingindustry.PublicSectorBanks control

CommercialbankingIndia,thesecanbefurtherclassifiedinto:

Nationalizedbanks2)StateBankofIndiaanditsassociates3)RegionalRuralBanksPRIVATESECTO RBANKS:

Privatesectorbankscameintoexistencetosupplementtheperformanceofpublicsectorbanksandservetheneedsoftheeconomybetter.Asthepublicsectorbankswere merely in the hands of the government,bankshad noincentive tomakeprofits andimprove their financial capability. The maindifferencebetweenpublicandprivatesectorbanksisonlythatpublicsectorbanksfollowtheRBIinterestrulesstrictlybutprivatebankscanmakesomechangesinthembutonly after theapprovalfromtheRBI.PrivatesectorbanksarethebankswhicharecontrolledbytheprivatelenderswiththeapprovalfromtheRBI.Theirinterestratesareslightlycostlyascomparedtopublicsector banks.

NONPERFORMINGASSETS:

NPAsplaysaimportantroleinthedevelopmentofacountry.Ifanycountryfailstocontrolthisitsleadstoeconomiccrisesinthecountry.AsperRBINPAsmeansAn asset,includingaleasedasset,becomesnon-performingwhenitceasestogenerateincomeforthebank.A‘non-performingasset’(NPA)wasdefinedasacreditfacilityinrespectofwhichtheinterestand/orinstallmentofprincipalhasremained‘pastdue’foraspecifiedperiodoftime.

Typeofloananditsfeatures

Sl.no.	**Nameoffacility**	**specification**
1	**Termloan**	**interestand/orinstallmentofprincipalremainoverdueforaperiodofmore than180days**
2	Overdraft/CashCredit	**accountremains‘outoforder’foraperiodofmorethan180days**
3	bills purchased anddiscounted,	billremainsoverdueforaperiodofmorethan180days
4	Agriculturalloan	interestand/orinstallmentofprincipalremainsoverduefor twoharvestseasonsbutforaperiodnotexceedingtwohalfyears
5	Anyloan	Anyamounttobereceivedremainsoverdueforaperiodofmorethan90days

DefinitionbyRBI:

Anasset,includingaleasedasset,becomesnon-performingwhenitceasestogenerateincomeforthebank.ANon-performingAsset(NPA)isaloanoranadvancewhere:

Interestand/orinstallmentofprincipalremainoverdueforaperiodofmorethan180daysinrespectofaTermLoan,Theaccountremains‘outoforder’foraperiodofmorethan180days,inrespectofanOverdraft/CashCredit(OD/CC),Thebillremainsoverdueforaperiodofmorethan180daysinthecaseofbillspurchasedanddiscounted,

Interestand/orinstallmentofprincipalremainsoverduefortwoharvestseasonsbutforaperiodnotexceedingtwohalfyearsinthecaseofanadvancegrantedforagriculturalpurposes,

Anyamounttobereceivedremainsoverdueforaperiodofmorethan180daysinrespectofotheraccounts.

OutofOrder'status

An account should be treated as **'out of order'** if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where theoutstandingbalanceintheprincipaloperatingaccountislessthanthesanctionedlimit/drawingpower,buttherearenocreditscontinuouslyforsixmonthsasonthedateofBalanceSheetorcreditsarenotenoughtocovertheinterestdebitedduringthesameperiod,theseaccountsshouldbetreatedas**'outoforder'**

CategoriesofNPAs

Banksarerequiredtoclassifynon-performingassetsfurtherintothefollowingthreecategoriesbasedontheperiodforwhichtheassethasremainednon-performingandtherealisabilityofthedues:

Sub-standardAssets:

A sub-standard asset was one, which was classified as NPA for a period not exceeding two years. With effect from 31 March 2001, a sub-standard asset is one, which has remained**NPA foraperiodless than or equal to 18months**.Insuch cases,the current net worth of the borrower/ guarantor or the current marketvalue of the security charged is notenough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and arecharacterisedbythedistinctpossibilitythatthebankswillsustainsomeloss,if deficienciesarenotcorrected**.**

DoubtfulAssets:

Adoubtfulassetwasone,whichremainedNPAforaperiodexceedingtwoyears.Witheffectfrom31March2001,anassetistobeclassifiedasdoubtful,ifithasremained**NPAforaperiodexceeding18months**.Aloanclassifiedasdoubtfulhasalltheweaknessesinherentinassetsthatwereclassifiedassub-standard,with theaddedcharacteristicthattheweaknessesmakecollectionorliquidationinfull,–onthebasisofcurrentlyknownfacts,conditionsandvalues–highlyquestionableandimprobable.

LossAssets:

AlossassetisonewherelosshasbeenidentifiedbythebankorinternalorexternalauditorsortheRBIinspectionbuttheamounthasnotbeenwrittenoffwholly.Inotherwords,suchanassetisconsidereduncollectibleandofsuchlittlevaluethatitscontinuanceasabankableassetisnotwarrantedalthoughtheremaybesomesalvageorrecoveryvalue.

PUBLICSECTORBANKsNPAsRsincr's

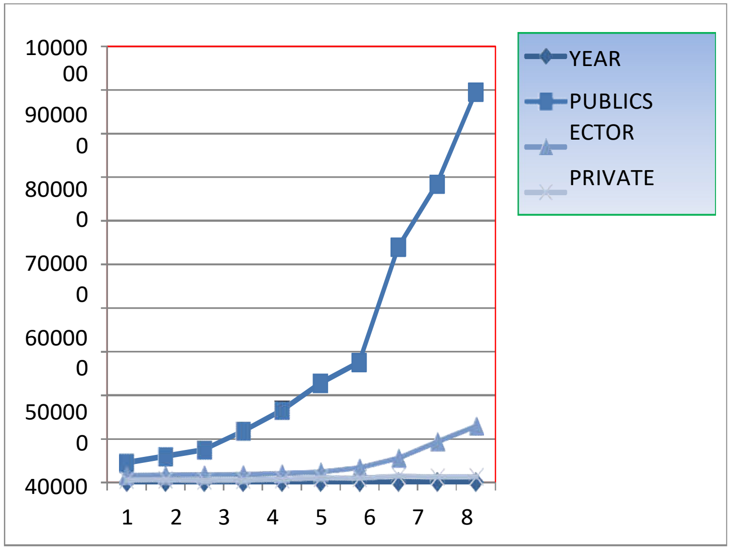
	Nameofthepublicsectorbank	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	ALLAHABADBANK	1078.25	1221.8	1647.92	2058.98	5136.99	8068.04	8357.96	15384.57	20687.83	26562.79
2	ANDHRABANK	368.14	487.87	995.64	1798.01	3714.49	5857.6	6876.54	11443.63	17669.98	28124.36
3	BANKOFBARODA	1842.92	2400.69	3152.5	4464.75	7982.58	11875.9	16261.44	40521.04	42718.7	56480.38
4	BANKOFINDIA	2470.88	4882.65	4811.55	6470.87	9309.53	12878.4	22193.24	49879.13	52044.52	62328.46
5	BANKOFMAHARASHTRA	798.41	1209.79	1173.7	1297.03	1137.55	2859.85	6402.06	10385.85	17188.71	18433.23

6	CANARABANK	2167.97	2590.31	3137.36	4031.75	6260.16	7570.21	13039.96	31637.83	34202.04	47468.47
7	CENTRALBANKOFINDIA	2316	2458	2394	7273	8456	11500	11873	22721	27251.33	38130.7
8	CORPORATIONBANK	559.22	650.94	790.23	1274.21	2048.23	4736.79	7106.67	14544.25	17045.22	22213.44
9	DENABANK	620.77	641.99	842.24	956.5	1452.45	2616.03	4393.04	8560.49	12618.73	16361.44
10	IDBIBANKLIMITED	1435.69	2129.38	2784.73	4551.37	6449.98	9960.16	12684.98	24875.06	44752.59	55588.25
11	INDIANBANK	459.18	510.1	740.31	1850.78	3565.48	4562.2	5670.44	8827.04	9865.14	11990.14
12	INDIANOVERSEASBANK	1923.41	3611.08	3089.59	3920.07	6607.96	9020.48	14922.45	30048.63	35098.26	38180.15
13	ORIENTAL BANK OFCOMMERCE	1058.12	1468.75	1920.54	3580.49	4183.96	5617.86	7666.22	14701.68	22859.27	26133.64
14	PUNJABANDSINDBANK	161.04	206.15	424.28	763.44	1536.9	2553.52	3082.19	4229.05	6297.59	7801.65
15	PUNJABNATIONALBANK	2506.91	3214.41	4379.39	8719.62	13465.79	18880.06	25694.86	55818.33	55370.45	86620.05
16	STATEBANKOFINDIA*	18413.91	25532.46	30392.79	48214.41	62778.47	79816.49	73508.45	12968.56	177810.6	223427.5
17	SYNDICATEBANK	1594.54	2006.82	2598.97	3182.7	2978.5	4611.13	6442.38	13832.16	17609.31	25758.6
18	UCOBANK	1539.51	1666.43	3150.36	4086.2	7130.09	6621.37	10265.05	20907.73	22540.95	30549.92
19	UNIONBANKOFINDIA	1923.35	2670.89	3622.82	5449.86	6313.83	9563.74	13030.87	24170.89	33712.28	49369.93
20	UNITEDBANKOFINDIA	1020	1372.3	1355.78	2176.42	2963.82	7118.01	6552.91	9471.01	10951.99	16552.11
21	VIJAYABANK	698.82	994.45	1259.19	1718.46	1532.94	1985.86	2443.21	6027.07	6381.78	7526.09

PRIVATESECTORBANKsNPAsRsincrore

	Nameoftheprivatesectorbank	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	AXISBANK	897.77	1318	1599.42	1806.3	2393.42	3146.14	4110.19	6087.51	21280.48	34248.64
2	HDFCBANK	1988.07	1816.76	1694.34	1999.39	2334.64	2989.28	3438.38	4392.83	5885.66	8606.97
3	ICICIBANK	9649.31	9480.65	10034.26	9475.33	9607.75	10505.84	15094.69	26221.25	42159	53240.2
4	FEDERALBANK	589.54	820.97	1148.33	1300.83	1554.01	1087.41	1057.73	1667.77	1727.05	2795.62
5	KARNATAKABANKLTD	443.2	549.64	702.17	684.72	638.86	835.94	944.21	1180.4	1581.59	2376.07

COMPARISONCHARTAMONGPUBLICSECTORPRIVATESECTORANDFORIGNBANK



SourceRbi.org.in

NONPERFORMINGASSETSASAMAJORISSUEANDCHALLENGEFORBANKINGINDUSTRY:

Thebankingsystemplaysavitalroleinthefinancesector.Withoutthesoundandefficientsystemofthebankwillleadtoahealthyeconomy.TheNarasimhancommittee introducedthe concept of non- performingassets. Andit isthe best way for judging the statusof the bank.Theburdenwilllieonthebankforthenon-paymentofloans.Whentheloansarenotrepaidtherewillbeahugelosstothebankandtherewillbemoney to transact between the customers. It is a risk arising from the customers to the bank. The bank needs to bear all the risks. Nowadays non-performingasset is keptonincreasing in both public sectorbanks andprivatesectorbanks.They face ultimate survivalin the market.Ascomparedto public sector-privatesectorbanks have less non-performing assets, andtheir net worth is slightly increasing. NPA hurts funds overbanks in capital markets. The government of India propounds many policy and rules to decrease and control over non- performing assets. Non-performingassetsaretheonly reasonstofallonrevenue.Thecausesforincreasing theNPAsarethefollowing

GDPslowdown -Between early 2000’sand 2008Indianeconomy were in the boomphase. During thisperiodBanks especially Publicsectorbankslentextensively tocorporate.However, the profits of most of the corporate dwindled due to slowdown in the global economy (LehmanCrisis).

Relaxedlendingnormsespeciallyfor Corporateswhentheirfinancialstatusandcreditratingisnotanalysedproperly.Fundsborrowedf or aparticularpurpose butnotuseforthe saidpurpose

Projectnotcompletedintime

In-abilityofthecorporatetoraisecapitalthroughtheissueofequityorotherdebtinstrumentfromcapitalmarkets.Businessfailures

Willfuldefaults,siphoning offunds, fraud,disputes,management disputes,mis-appropriation etc.Deficienciesonthe partofthe banksviz.incredit appraisal, monitoring and follow-ups,delaying settlement of payments\subsidiaries by government bodiesetc.Five sectors Textile, aviation,mining,Infrastructurecontributestomostofthe NPA,sincemostoftheloangiveninthesesectorarebyPSB's.NPAsinthecorporatesectorarefar higher than those in the priority or agriculture sector. However, even the PSL sector has contributed substantially to theNPAs.Banks did notconduct adequate contingency planning, especially for mitigating project risk.Policy Paralysis and key economic decisions were delayed whichaffectedthemacroeconomicstabilityCompanieswithdwindlingdebtrepaymentcapacitywereraisingmore&moredebtfromthesystem.

ImpactsofNPAs

Theefficiencyofabankisnotreflectedonlybythesizeofitsbalancesheetbutalsothelevelofreturnonitsassets.TheNPAsdonotgenerateinterestincome for banks but at the same time banks are required to provide provisionsforNPAsfromtheircurrentprofits

TheNPAshavedeleteriousimpactonthereturnonassetsinthefollowingways

ThehigherNPA's,theweakerwillbethebank'srevenuestream.

IndianBankingsectorhasbeenfacingtheNPAissueduetothemismanagementintheloandistributioncarriedbythePublicsectorbanks.

AstheNPAsofthebankswillrise,itwillbringascarcityoffundsintheIndianmarkets.Fewbankswillbewillingtolendif they arenotsureof therecoveryoftheirmoney.

Theshareholdersofthebankswillloseofmoneyasbanksthemselveswillfindittoughtosurviveinthemarket.

Thepriceofloans,interestrateswillshootupbadly.

Itwillimpacttheretailconsumers,whowillhavetoshelloutahigherinterestrateforloan.Finally,itwillleadto lowergrowthandhigherinflationbecauseofthehighercostofcapital.

ItisduetoabovefactorsthepublicsectorbanksarefacedwithbulgingNPAswhichresultsinlowerincomeandhigherprovisioningf ordoubtfuldebtsanditwillmakeadentintheirprofitmargin.

StepstakenbyRBIandGovernmentinlastfewyearstoaddressNPA’s

‘MissionIndradhanush’waslaunchedtomaketheworkingofpublicsectorbankmoretransparentandprofessionalin order tocurbthemenaceofNPA.

Introduction ofInsolvency and Bankruptcy code.Also, SARFAESI ActandDRTAct have beenamended to maketherecoveryprocessmoreefficientandexpedient.

RBI introduced Corporate Debt Restructuring (CDR) mechanism, setting up a Joint Lenders’ Forum, 5:25 scheme,StrategicDebtRestructuring(SDR)scheme.

Promptcorrectiveaction(PCA)oftheRBIhelptomitigatefinancialstabilityrisksbyarrestingthedeteriorationinthebankingsect or,sothatfurther capitalerosionisrestrictedandbanksarestrengthenedtoresumetheirnormaloperations.

‘Project Sashakt’– the five-pronged strategy to deal with NPAs recommended by the Sunil Mehta-led committee hasbeenapositivemove.

Recognition of Bad loans is the first step in the direction of dealing with NPAs. Economic Survey 2016-17 proposedsetting of PARA- The Public Sector Asset RehabilitationAgencycolloquially called “Bad Bank” to assume theNPAofpublicsectorbanksinIndia.TherehasbeenaproposaltocreatePubliccreditRegistry.

FINDINGS:

NPAplaysaveryimportantroleinthedevelopmentofeconomyaswellasperformanceofthebankAllthebanksare sufferingfromincreases ofNPAs

Comparativelyprivatebanksarebetterthanpublicbanks

RBIcontinuouslyworkingtowardscontrollingtheNPAsinthecountry

SUGGESTIONSTOCONTROLNPAs:

TheBankshouldadoptthefollowinggeneralstrategiestocontrolNPAs.Thesuggestionsareasfollows:

ProjectswitholdtechnologyshouldnotbeconsideredforfinanceandLargeexposureonbigcorporateorsingleprojectshouldbe avoided.

Bankshouldpreventdiversionoffundsbythepromoters.AndTheCreditsectionshouldcarefullywatchthewarningsignalsviz.no n-paymentofquarterlyinterest,dishonorofchecketc.

IdentifyingreasonsforturningofeachaccountofabranchintoNPAisthemostimportantfactorforupgradingtheassetquality,asth atwouldhelpinitiatesuitablestepstoupgradetheaccounts.

Thebankmustfocusonrecoveryfromthoseborrowswhohavethecapacitytorepaybutarenotrepayinginitiationofcoerciveaction afewsuchborrowsmayhelp.

Effectiveinspectionsystemshouldbeimplemented.

CONCLUSION:

GrowingNPAsis oneof the biggestproblems that theIndian banks are facingtoday.If proper managementof theNPAs is not undertaken it would hamper the efficiencyof the banks.If the concept ofNPAs is taken very lightly itwould be dangerous for the banking sector. The NPAs destroy the current profit andinterestincomeand affect thesmoothfunctioningoftherecyclingofthefunds.Banksalsoredistributelossestootherborrowersbychargingmhigherinterestrat es.Lowerdepositratesandhigherlendingratesrepresssavingsandfinancialmarkets,whichinturnhamperstheeconomicgrowth ofthecountry.Thus,itishighlyessentialforthebankstofocustheirattentionon growthofNPAsandtakeappropriatemeasurestoregulatetheirgrowth.

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Non-PerformingAssetsofBanksHaveTheyReallyDeclined?AndonWhoseAccount?KMShajahan