



A STUDY OF IMPACT OF NPA ON INDIAN ECONOMY

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ABSTRACT

A sound banking sector is important necessity for a prosperous economy. The poor banking sector may have an adverse effect on the all sectors of economy like Industry, agriculture and service. Currently NPA in the banking sector is debated topic because NPAs are increasing years by years and specially in public sector banks. Recently government has done mergers of several public sector banks to reduce the burden of NPAs but still the banking sector is under the burden of NPAs. The mammoth amount of NPAs are seriously affecting the performance of banks as well as economy of country. An attempt is made to study the reason behind increasing NPAs. The main objective of this paper is to study the impact of NPAs on Indian economy. A strong banking sector diverts the savings into the investment. An increasing NPAs have a negative effect on the profitability and performance of banks, it reduces the GDP and Growth of economy of country and adversely affect all sectors of Country.

Key words: Banking Sector, Economy, NPAs.

INTRODUCTION

The Banking Sector is a major sector of the economy that has achieved renewed focus after financial sector reforms. Banking sector is the base of modern economic development of the country and hub of development strategy. It helps in mobilization of resources and better allocation towards different business activities. Indian banking sector plays a pivotal role in economic development of the nation

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As it is not possible to carry out all development projects by government only so they require the help of private sector and as a result government has given clear instruction to all banks to lend money at a liberal terms to all private sector projects to boost the development oriented activity. As to follow the instruction of government and RBI , all banks have distributed a huge amount of fund to various big industries like Reliance, GMR, JP Associated, Adani and Kingfisher. The huge amount of loans given by the banks threatening the banks itself and turn in to NPAs.

NPAs means the assets which is not generating the return to the banks. In India , Public sector banks are more suffering from NPAs compare to their counter part Private Banks and foreign banks. A high level of NPAs directly affects the profitability and operations of the banks. It will erodes the value of assets. So it is the first priority of all banks to cope up with problem of NPAs

OBJECTIVES OF THE PAPER:

1. To present the Basic understanding of Non – Performing Assets.
2. To study the reason why assets become NPAs.
3. To Study the impact of NPAs on Indian Economy.

RESEARCH METHODOLOGY:

The current study is mainly focus on the impact of NPA of Indian economy in general. The study purely based on Secondary data which is collected from the Annual Report published by different public banks, private banks and foreign banks as well as RBI Bulletin, different Research Articles published in national and international journals, References books, various libraries, Government and NGOs Websites, etc.

WHAT IS NON-PERFORMING ASSETS?

All loan advances of banks are assets. The loan or lease, which is not meeting its stated interest or principal repayment of the secured debt to the designated lender, is called as a Non Performing Asset.

A non-performing asset (NPA) means the loan or advance for which the principal amount or interest payment remained overdue for a period of 90 days.

REVIEW OF LITERATURE:

In The Research Paper Titled: Non performing Assets And Its Impact On Indian Public

Sector Banks By Dr S.M.Tariq Zafar, Dr AdeelMaqbool, S.M.Khalid (2013) - Managing NPAs and capturing them at minimum level has become most important for the banking industry in recent years. Strict and serious steps are required to monitoring and controlling of the loans sanctioned by the banks as majority of NPAs are happened due to poor credit monitoring. To decrease the level of NPAs banks require comprehensive preventive monitoring mechanism for exploring and maintaining the sound and healthy loan accounts. Though one time settlement scheme, DRTs, CIBIL, and SARFAESI Act 2002 have been proven effective tool in solving the problem of NPAs, but lot more have to be done in this regard to be developed and adopted by all the public sector banks.

In The Research Paper Titled: Non Performing Assets of Indian Banking System and its Impact on Economy by Pro. D.S. Rathore, Dr.Sangeeta Malpani , Sunita Sharma (2016) - An asset becomes non-performing when it ceases to generate income for the bank. A nonperforming asset (NPA) is defined generally as a credit facility in respect of which interest and / or instalment of principal has remained “past due” for two quarters or more. The present paper used secondary data to study the impact of NPAs on Economy. The main objective of this paper is to study the status of NPAs, and its impact on economy. At the last paper also examine and suggest some of the tool to recover the NPAs. The study conclude that there is a positive relation between Total Advances, Net Profits and NPA of bank which is not good. The main reasons for rise in NPAs are reducing the domestic growth in the recent past, slow recovery in the global economy and continuing uncertainty in global markets leading to lower exports of various products such as textiles and leather.

In The Research Paper Titled : Impact Of Non-Performing Assets In The National By Dr. Muraripremnathsharma (2015) - The three letter black snake (NPA) is going up and up. All the banks have to think seriously about the regulator norms of this

increasing NPAs which includes guarantor norms, recovery rules and its implementation. There is a great need to improve the banking policy. As We cannot predict about the customers perception for the repayment of loans. This main objective of this paper is to study the impact of NPA on national economy and recommendation of regulatory norms.

In The Research Paper Titled : Negative Impact of NPAs on Indian Economy: An Analysis by Raj Kishor Pradhan (2018) - More than Rs. 7 lakh crore worth loans are classified as Non-Performing Loans in India. This is a big amount. Any asset which stops giving returns to its investors for a specified period of time is known as Non-Performing Asset (NPA). . This increasing NPAs are not a good sign and can result in crashing of banks which was happened in 2008 in the United States of America. it may impact easy disposition of money for social and infrastructure development of the country and results into increasing social and political cost. NPAs related cases add more pressure to already pending cases with the judiciary one. it may impact easy deployment of money for social and infrastructure development and results in social and political cost. NPAs related cases add more pressure to already pending cases with the judiciary one.

CAUSES OF NPAS:

- The biggest reason why loans become NPAs is Diversion of funds by companies for purposes other than for which loans were taken.
- Banks are not taking due diligence in the initial disbursement of loans and Inefficiencies in post disbursement and lack of monitoring creates the issues of NPAs.
- One of the reasons behind increasing NPAs is over leveraging by corporates as mention in economic survey 2015.
- Till today the banks have Poor recovery mechanisms and use of coercive techniques by banks are increasing NPAs.
- Crony capitalism is also one of the reason behind the increasing NPAs due to government policy of promoting development in various sectors.
- Sometimes due to political pressure banks are compelled to provide loans to

some corporate houses and sectors which are already under the stressed.

- Corporate defaulters are taking undue advantage of poor bankruptcy laws and as a result they find loopholes to not to repay the loans.
- Indian legal system takes its own time to settle down the cases of corporate frauds as a result the burden of NPAs are ever increasing.
- Another big reason that contribute to the increasing NPAs is lack of skill and expertise in the employees in many big public sector banks in terms of recovery.
- Already public sector banks are suffering from shortage of manpower and some of the employees are having over burden of works so they are not able to focus on recovery.

EFFECT OF NPAS:

- The higher is the amount of non-performing assets (NPA) the poorer will be the performance of banks.
- The ever increasing NPAs will directly affect the market and might create a crisis situation in market.
- The increasing NPAs will creates the scarcity of fund to be landed in near future.
- The NPAs will directly reduce the earning of shareholders as banks are not been able to generate enough profit.
- The Poor recovery or increasing NPAs makes future lending more costly as banks are increasing the interest rate.
- Credibility of banking system is also badly affected due to increasing NPAs because it volatile the confidence of public in the soundness of the banking system.
- The biggest part of NPAs is just become of Priority sector lending due to policy of government and as NPAs are increased banks are ceased to grant more credit to Priority sector.

- Agricultural credit is also affected by increasing NPAs as all farmers are always waiting for waiver of loan in future Banks are not granting credit to farmers on liberal terms.
- Lending for Small scale industries become more tough and limited because of increasing NPAs as they are already suffered with fund crisis.
- The overall demand of the goods and service are goes down due to lack of sufficient money supply in the country.
- Increasing NPAs may Badly affect the Growth and development of the country, it ceased the business cycle.
- Country's GDP and growth rate is also goes down as business activities are not been able to collect fund from the bank and market.

FINDINGS:

- Increasing NPAs result in to decrease in interest income of banks.
- As interest income decrease banks profitability get adversely affected result in to more providing of doubtful debts.
- Return on investments (ROI) gets reduced more than NPAs.
- The capital adequacy ratio gets disturbed due to increasing NPAs.
- Due to uncertainty in return, high risk and NPAs the cost of capital will go up which again rise interest rate for genuine borrowers.
- Due to NPAs, assets and liability mismatch will increase.
- Bank's Image is spoiled result in to lose of Public trust and Business.
- To curb the NPAs Bank will restrict supply of Loan in economy result in to slow down in investment which influences economy and unemployment level, inflation rate.
- Increasing NPAs ultimately reduce the interest rate on saving deposit.

SUGGESTIONS:

- The Bank must have to keep watch on the progress or the financial condition of suspicious business units continuously. As soon as something is heard about

the sickness of the business unit, immediate actions should be taken for the recovery of the loan.

- the appraisal of the project report must be carried out by an expert officer at a time of loan. In fact, this is the root cause from where the NPA arise.
- The bank officer must not behave flexibly as far as the documents are concerned. Application without proper documents should be rejected. This will prevent the rise in NPA.
- It can be suggested that political influence should not be given priority in providing loan & advances and the application must be rejected by the bank.
- The bank officer should accept concrete (real) securities only, which should have highest liquidity and this help for easy recovery of loan.

- The govt. should abolish any kind of relief which are being provided to the farmers and business as a subsidy. It should be make very clear to the account holder that interest and instalments must be paid regularly.
- Banking officers must be trained with help of seminars and though training classes. The banking officers should be provided with sufficient knowledge regarding court proceedings for such recoveries.

CONCLUSION:

The current study of NPAs highlights that the problem of NPAs is not limited to banks only it also have multiple effects on the other sectors too. Due to lack of proper management in banks NPAs are increasing, The Profitability of banks are adversely affected due to NPAs and the lending capacity of banks are curb. As the banks are not

being able to generate enough credit, it becomes difficult for business to raise the fund and expand business activity. As a result there are less number of jobs. There is a unfavourable trend starts in economy where existing business are not developed or expanded and No new business units are going to start. So overall NPAs are creating a Negative effect on the whole economy. NPAs are affecting the Growth of different sectors like Agriculture, Construction, Hospitality, service sector etc. NPAs are cessed the growth rate and GDP of Country and destroying the business climates. So, RBI, Government and all Banks have to take immediate step to cope up with problem of NPAs.

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