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NPA status of Indian banks in pre and post liberalization era

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Abstract
The banking and financial sector network of a nation is crucial to its economic development in the rapidly shifting global economy of today. By stimulating multiple economic activity across the nation, the banking industry contributes to the overall economy's strengthening. The free flow of capital in the economy, which serves as a source of fuel for economic expansion, is ensured by banks. Thus, the speed of economic development can be impacted by the effectiveness of a nation's financial system. As with any other economic organisation, efficiency of a bank is determined in part by profitability and asset quality. India is a social democratic nation, hence many of the national and state governments' policies are based on social beliefs. One of the main forces driving India's economic expansion is the banking sector. Even in the days when the rest of the globe was struggling with a financial catastrophe, the Indian banking system has made exceptional progress over the last few of years. Over the past two decades, the Indian banking system has changed as a result of India's profitable development and financial sector liberalisation. Non-performing assets are currently a problem for all banks, including Indian institutions. The study's goals were to compare the pre- and post-liberalization situation of non-performing assets in Indian banks. The magazine, newspaper, Google, and other sources gathered the secondary data.

Keywords: Non-performing assets, gross NPA, net NPA, liberalization

Introduction

Economic liberalisation in India began in 1991 with the help and efforts of Drs. P.V. Narsimha Rao and Manmohan Singh. Expansion of investment and industrialisation was the primary goal of liberalisation. As a result of liberalisation, the Indian banking sector has become more careful when approving loans for its clients and has begun to take precautions to prevent assets from becoming non-performing assets.

As with any other economic organisation, efficiency of a bank is determined in part by profitability and asset quality. India is a social democratic nation, hence many of the national and state governments' policies are based on social beliefs. As a result, the banking sector in India has created business practises that reflect social values. Only the banking network can be used to implement the economic policies that have been agreed to be implemented through five-year plans. Through corporate social responsibility (CSR), the banking industry served as a potent stimulant during the post-independence era, helping the government achieve its social and economic objectives. The problems were addressed, among other things, through deposit mobilisation, widespread branch networking, employment development, and lending to priority sectors. The post-liberalization period saw the Indian banking sector's productivity suffer due to numerous constraints and significant government interference in accomplishing social goals. An analysis of the Indian banking system prior to liberalisation found that a number of flaws reduced productivity and efficiency, asset quality significantly declined over time, and technological inefficiencies led to an industry-wide cost structure that was disproportionately high. The strategists claim that one of the biggest obstacles to the growth of a successful and fruitful banking business is the decline in asset quality. Assets were categorised in the pre-liberalization era according on their health code, and interest was tracked in bank accounts. These kinds of schemes addressed the significance of asset quality concerns at the time in the banking sector. Asset quality used to be among the largest issues, and it still is. The researchers found that a variety of performance variables, such as liquidity, expenses, income, bank dependability, and profitability, are significantly impacted by asset quality.

It is also well recognised that Non-Performing Assets (NPAs) would appear as asset quality and profitability declined.

An advance account is classified as a non-performing asset (NPA) if the interest and installment payments are not made for 90 days or longer. These assets are anticipated to have a negative impact on the banks' bottom lines. The amount of non-performing assets (NPAs) will affect how well the bank manages its resources and other risks. According to the Basel convention on banking supervision, the financial institution is subject to credit risk when a customer does not adhere to the established terms of repayment. When we look at the real economic effects of non-performing assets, we can see how they have recently restricted capital and the amount of money available for new loans. Following liberalisation, criteria for asset classification, revenue recognition, and provisioning were adopted to adhere to international standards and boost the proficiency of the banking industry. The Narasimhan committee, which was established to reform the banking sector, recommended that banks identify non-performing assets (NPAs) accurately and launch aggressive attempts to get rid of them. In the banking industry, efficient credit management systems should be developed to keep a careful eye on advance accounts that are slipping into the NPA category. The Securitization Act, ARCs (Asset Reconstruction Companies), DRTs (Debt Recovery Tribunals), and Compromise Settlement Schemes are just a few of the tools the RBI introduced to deal with existing NPAs.

Role of banking in Indian Financial System

A sound financial system is crucial for capital formation. In academic literature, the significance of sufficient capital generation for quick economic progress is well known. The established "Financial System" is essential in enabling the flow of money between individuals who preserve a portion of their earnings and those who invest in productive assets. The provision of money and other monetary assets for the production of goods and services is the main purpose of the financial system.

To assess the nation's economic development, the financial system must be effective, smart, and persuasive in nature. Economic growth and the expansion of financial institutions go hand in hand. The institutional structure, operational guidelines, and regulatory framework of financial institutions vary from one another and are significantly influenced by the country's political and economic system. The trajectory of India's financial development has changed as a result of its planned economic growth. The financial system underwent three distinct phases in the 1990s: globalisation, deregulation, and liberalisation, all of which had an effect on how the financial system would grow in the future. These are what they are:

a) The start of planned economic development, which lasted until 1951 and was consistent with the situation after independence.
b) The years 1951 to the middle of the 1980s were crucial for capturing the intended economic expansion.
c) A liberalised, unregulated, and globalised economic environment arose after the early 1990s.

Indian financial system–detailed description pre 1951

Because the financial system was still developing at the period, there were few opportunities for industrial expansion because the industry had limited access to outside savings. Significant industrial development rates at this time were hampered by the finance system's incapacity; these rates were mostly related to the expansion of innovative and new firms.

1951 to 1990

In 1951, priorities were established for implementation in order to achieve a methodical economic growth. Planning implied that the financial system was governed by the government by referring to the distribution of credit and money in accordance with planning priorities. The main elements of IFS are as follows:

1. A financial institution supporting projects in the public sector
2. To have an institution that is well-structured
3. The interests of investors must be protected.
4. Corporate management systems are required for financial institutions.

The financial system had synchronised with government financial planning by the middle of the 1980s, indicating that the government's role in the growth of the Indian economy had grown significantly.

1990 and onward

Financial institutions have seen substantial changes since 1991, when the economy was liberalised and globalised.

The following advancements took place during this time

1. Privatisation of Financial Institutions
2. Reorganising the institutional system

Security for investors

In conclusion, the distribution of finance and credit in the capital market has replaced government regulation of economic management as the major method of resource allocation in the entire sector economy.

Following liberalisation in 1991, the government established a number of committees to examine the operation of the Indian banking industry and suggest legislative changes to improve the banks' soundness, efficiency, and competitiveness. Under the leadership of Mr. M. Narasimham, two such expert panels were formed in 1991 and 1998. These committees' (often referred to as Narasimham Committee I and II) recommendations laid out the post-liberalization Indian banking sector's reform road map. The committees advised adopting risk-based capital rules, standardised accounting procedures for income recognition, and provisioning for bad and doubtful debts. These are just a few of the micro prudential measures.

Banking is regarded as the backbone of every nation's thrift. Increased non-performing assets (NPAs) in the banking industry have a number of negative effects on the economy. However, if NPAs are not properly managed, it can result in financial and economic degradation, which in turn signals a poor investment environment. Banking is regarded as the backbone of every nation's thrift. Advances are given to many sectors, including SSI, agriculture, priority sector, public sector, and others, by a group of banks from various categories. To keep escalating NPAs in check in the Indian banking sector, these advances require pre-sanctioning appraisal and post-disbursement management.

Non performing asset

When the borrower stops producing income for any reason, the asset for the bank becomes a non-performing asset because the bank is unable to generate any income. Therefore, an asset that isn't bringing in any money for the banks is referred to as a "Non-Performing Asset."

Any loans or advances that have been outstanding for longer than 90 days are regarded as non-performing assets according to the Reserve Bank of India's established standards. According to the overdue period, NPA has been further classified into three further groups.

a) **Sub-Standard Assets:** An asset is deemed a Sub-Standard Asset if it is an NPA for a period longer than or equivalent to 12 months.

b) **Questionable Assets:** Assets that have been classified as NPAs for more than 12 months are deemed to be questionable assets.

c) **Loan Assets:** In accordance with RBI regulations, assets that are unrecoverable for an extended period of time and also impossible to collect in the future or merely a small portion that has remained unpaid for an extended length of time might be deemed Loss Assets.

Banks set aside a portion of their profits as a reserve for NPAs that would eventually become bad debts. Any bank's balance sheet contains this provision under the heading critical performance indicator. These NPAs may be kept in the books of account by the banks or they may be written off as bad debt. This banking practise demonstrates the banks' good financial standing. There are two sorts of NPAs that can be seen on any bank's balance sheet. which are listed below.

1. Gross NPA: GNPA, or Gross Non-Performing Assets, is the technical term. The GNPA represents the overall amount of non-performing assets held by that specific bank during that specific fiscal year. The total loans and advances made by the bank are the basis for GNPA.

2. Net NPA: NNPA, or Net Non-Performing Assets, is the term used. NNPA calculates the NPA's exact value from Gross NPA provisions. 0% of total loans and advances are also used to calculate NNPA. For the purpose of maintaining a minimal level of NNPA, banks retain a portion of their profit.

Statement of the problem

Every business organisation, including those in the banking industry, uses profitability as a criterion for assessing its performance. On the other hand, increasing non-performing assets have a significant impact on a bank's earnings. Therefore, the goal of this research work is to ascertain how non-performing assets affect Indian banks' profitability.

Scope of the study

Indian banks are the best in the banking sector in terms of branch expansion, deposits, and loans to certain industries. Because it would not be feasible to include all banks, the current study's scope is limited to Indian banks. As a result, this study's primary focus is on Indian banks. This analysis's goal is to define and evaluate the impact of non-performing assets (NPAs) on the periods before and after financial liberalisation.

Review of literature

Shinde MS & Jadhav Babasaheb. (2021) [3]. Economic liberalisation in India began in 1991 with the help and efforts of Drs. P.V. Narsimha Rao and Manmohan Singh. Expansion of investment and industrialisation was the primary goal of liberalisation. As a result of liberalisation, the Indian banking sector has become more careful when approving loans for its clients and has begun to take precautions to prevent assets from becoming non-performing assets. In order to boost non-agricultural and non-farm activities, Prime Minister Shri Narendra Modi established the Mudra Loan Concept in 2015 as the centrepiece of the PMMY plan. These loans are provided by Mudra Banks, which are banks. These banks offer loans up to Rs. 10,00,000 without requiring any collateral. As a result, there is a strong likelihood that non-performing assets may rise. The report outlined the factors that contributed to selective Mudra banks' rising NPA as well as the necessary remedial actions or Mudra banks' efforts to reduce NPA. NPA has a negative impact on the bank's liquidity, profitability, and financial stability. NPA eliminates the bank's source of revenue. The study examined Mudra Banks' Gross Non-Performing Asset and Net Non-Performing Asset positions before and after the COVID-19 Pandemics crises. The study found that mudra loan borrowers have a higher level of repayment capability than any other loan borrowers, and that the covid-19 pandemic had no impact on their ability to repay their debts because they were in the same position both before and after the crisis.

K. Murugan. 2020 [4]. The purpose of the paper is to look at the situation with NPAs and how they affect India's public sector banks and economy. For the study, a straightforward percentage was used together with secondary data. For the past 20 years, NPAs have posed a severe danger to the Indian economy. In the past 20 years, the banking industry has been struggling greatly with the rising volume of non-performing assets (NPAs). All public sector banks in India are committed primarily to lending money to the priority sectors. Banks in the private sector are lending to businesses most frequently. It affects the entire country's economic system in addition to the banking industry's performance. Stressed assets and non-performing assets (NPAs) difficulties are nothing new to our financial industry. There are five sections in the paper. The introduction and problem statement are covered in the first section. Review of the literature is covered in the second section. The third portion contains a presentation of the data base and technique. The fourth portion investigates how improved public sector banking performance is impacted by increased NPAs. The summary and conclusion have now been provided. PSBs should develop the knowledge and techniques for managing credit and credit risk. To increase profitability and lower NPAs, the government must provide a flexible remuneration package and performance-based incentives for PSB management.

Nayan Aggarwal and Abhishek Kumar Singh, among others (2019) [1]. It has been noted that the risk of NPAs has an immediate impact on the bank's performance, and that NPAs have a detrimental impact and influence on both public and private banks' performance. They came to the conclusion that the asset quality of scheduled commercial banks had significantly improved in 2018-19 since the gross NPA ratio had decreased from 11.5% to 9.3% as of March 2019. They discovered that political intervention in the operation of public sector banks is the more significant factor contributing to the rising NPAs of those institutions.

Ahita Paul (2018) [2] investigated the external factors that enhance the likelihood of NPAs, such as a decline in globally competitive commodity prices that slows exports. Some of them are more fundamental to the Indian banking industry. He claims that the loans that are today categorised as NPAs were created in the middle of the 2000s, when the economy was growing and the outlook for business was highly favourable. Loans were provided to large firms for initiatives that extrapolated from their recent performance and growth. However, as the economy stalled in 2008 as a result of the world recession, these businesses' ability to repay debt shrank. As a result, both the banking sector and the business sector in India are under financial difficulty. This has contributed to the country's twin balancesheet problem. At this point, the banks adopted the practise of "ever greening," whereby certain promoters received new loans in order to pay off their interest. This effectively delayed the time when these loans would be considered non-performing but did not address the underlying reasons for their unprofitability.

Objectives of the study

1. To examine how Non-Performing Assets have changed in Indian banks both before and after liberalisation.
2. To examine the causes of the rising NPA levels in Indian banks.

Research Methodology

Data will be gathered through study-related observations as part of the descriptive research approach. The current research article will have the following research design:

Variety of Data: The secondary data was already gathered by someone else in the past and was already there in various ways.

Data sources: The secondary data is suggested to be gathered from a variety of annual reports of the Indian banks, bank financials published on websites, newspapers, articles, and other trustworthy sources.

Tools for presenting data: The researcher wishes to examine the percentage share of NPAs for loans to India and other types of loans using a bar chart. The researcher also seeks to demonstrate how the bank has made provisions to reduce GNPA from Indian loans.

Data Analysis

Table 1: Indian banks gross NPA ratio

Sr. No.	Name of the Bank	% of Gross NPA ratio out of Gross total loan				
		2017-18	2018-19	2019-20	2020-21	2021-22
1	Bank of India	18.26	17.79	16.69	15.46	10.84
2	Union Bank of India	11.67	16.41	15.58	15.19	12.04
3	State 'Bank of India	11.55	7.90	6.41	5.16	4.10
4	Bank of Maharashtra	21.48	18.54	13.99	7.60	4.06

Observations: The position of Gross NPA in relation to Gross Total Advances in Selected Indian Banks is depicted in the above graph. The GNPA ratio is displaying an increasing as well as a decreasing tendency in the financial years 2017-18, 2018-19, and 2019-20, and an increasing trend in the financial years 2020-21 and 2021-22. The GNPA has grown, it is concluded.

Table 2: Indian banks Net NPA ratio

Sr. No.	Name of the Bank	% of Net NPA ratio out of Gross total loan				
		2017-18	2018-19	2019-20	2020-21	2021-22
1	Bank of India	8.26	5.61	3.88	3.35	2.34
2	Union Bank of India	8.42	6.85	5.49	4.62	3.68
3	State Bank of India	5.73	3.01	2.23	1.50	1.02
4	Bank of Maharashtra	11.24	5.52	4.77	2.48	0.97

Observations: The above chart is showing the position of Net NPA towards advances in selected Indian banks. In the financial year, 2017-18, 2018-19, and 2019-20 i.e. post liberalization period as well as in the financial year 2020-21 and2021-22 i.e. it is showing in decreasing trend. It is concluded that the NNPA is in decreasing trend year on year because of the increase in provisions of banks from its profit for minimizing Gross NPA and also because of high government support.

Table 3: Group Statistics

	Impact of liberlalization	N	Mean	Std. Deviation	Std. Error Mean
% of Gross NPA ratio out of Gross Total loan	Before1991	12	14.6892	4.52432	1.30606
	After1991	8	9.3063	4.73654	1.67462

Observations: The researcher employed the equality of means to check the NPA status of a few Indian banks in the data analysis of the gross NPA ratio as a percentage of gross total loan in the example above. Prior to 1991, the mean had a standard deviation of 4.52 and was 14.68; after 1991, the mean had a standard deviation of 9.3063 and was 4.73.

Conclusion

Every nation's economy relies on banking, which is regarded as its lifeblood. Any issue involving the banking industry may have positive or negative effects on the economy. Growing levels of non-performing assets (NPAs), which could have a negative impact on the economy, have been a severe problem for the Indian banking system. The bank should implement rigorous credit policies and take prompt action against NPA. Before making a loan, the bank has to have to investigate each borrower's creditworthiness. Credit risk management can assist banks in lowering NPAs and enabling growth in the banking industry. Banks will need to be re-capitalized. Given the current situation, financial institutions must have a strong political will in order to find definitive solutions for reducing NPAs. Every nation's ability to expand economically is reliant on the efficient running of its financial institutions, which includes the banking industry. The Indian banking sector has traditionally suffered from non-performing assets (NPAs). They have a detrimental impact on the banks' earnings. They have an impact on the financial health of the economy as well as the bank. Since the financial system is essential to the growth of our economy, banks must focus on NPA management in order to increase revenues. A bank's profitability, liquidity, and solvency are all impacted by an expanding NPA because it signals a significant number of loan defaults. Public sector banks are largely impacted by the nonperforming assets (NPAs) issue. Since Indian banks mainly rely on interest income from borrowed money, the availability of capital is directly impacted when deposits turn into non-performing assets (NPAs) as a result of defaulting on debt payments.

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