

Non-Performing Assets (NPAs) of Scheduled Commercial Banks (SCBs) in India : Analytical Revelations

AMARJIT SINGHSETHI *
ANU BAJAJ**

Abstract

This paper makes certain analytical revelations in respect of NPAs of the SCBs in India in respect of the extent of instability along the growth path; temporal narrowing down of inter-bank gaps; and structural changes in the functional relationships of NPAs with size of the banks. The computations were made for 26 public sector, 18 private and 21 foreign banks (as also for the 65 SCBs taken together) period from 1995-2014. As per the main findings, the asset quality of all types of Indian SCBs has turned sour fairly rapidly after global financial crisis of 2008-09. As per convergence analysis (both unconditional and conditional), inter-bank gaps have temporally narrowed down, so far as the severity of their bad loans is concerned, although the extent of dispersion has not declined. Further, for each of the categories, NPAs of the banks were observed to be related with their size. During the post-crisis period, higher the size of an SCB, lower would be its NPAs.

I. Introduction

IN THE INDIAN context, the term *Non-Performing Assets* (NPAs) was coined after the introduction of financial sector reforms in the light of the recommendations made in the Narasimham Committee Report, 1991. The committee put emphasis on the identification of problem loans and to make adequate provisions in respect of such loans (Jain, 2007). These days, one of the most challenging problems being faced by the Indian banking system is that of NPAs. As has recently been reported (Raghuram Rajan, 2016), NPAs of public sector banks have touched a glaring figure of as high as ¹ ₹ 3.61 lakh crore towards the end of December 2015. Furthermore, as many as 701 accounts with bad loans exceeding ¹ ₹ 100 crore owed public sector banks a totality of ¹ ₹ 1.63 lakh crore.

* Professor, Guru Nanak Dev University, Punjab School of Economics, Amritsar, Punjab 143005, INDIA

** Senior Research Fellow, Guru Nanak Dev University, Punjab School of Economics, Guru Nanak Dev University, Amritsar, Punjab 143005, INDIA

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