



IMPACT OF BANK'S NPA ON ECONOMIC HEALTH OF INDIA

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Abstract

A Healthy banking sector is important for flourishing economy. Healthy banking system simply means minimum loss and maximum profit. Loss can be avoided by proper care of assets that Bank possesses, here the term NPA comes. NPA is indicator of Management and outcome from assets. If Asset Management is good and it generates revenue then bank or financial institute makes profit and if Asset Management is bad, loans are not producing money and such assets are called NPA. NPA has direct impact of profitability. Higher NPA shows poor performance and lower NPA shows strong performance of bank. The present research paper is aimed to explore the impact of NPA on the health of economy and try to throw light on how bad loan and NPA affect Indian economy.

Keywords: *NPA, Performance, Economy.*

Introduction

Person or Institute who borrows loan and not returning or repaying capital or interest in definite timing and also not having any future plan to repay is fall under NPA category. NPA is growth and soundness indicator of loan lender Financial institute. Institute whose NPA is higher are having weaker economic health and those Institute have weaker Asset Management, efficiency and solvency. Higher NPA adversely affect profit of financial institutes and produce loss in profit portion too. This Financial institutes are mainly represented by banks in India, so profit and loss of banks not only affect banks and their shareholders, but also affect economic health of nation as majority of a people in India have their savings in banks.

Nonperforming Assets

Assets that are not generating revenue or income are i.e. asset that are not performing are basically called nonperforming assets.

According to RBI assets whose interest and capital installment are due for more than 90 days fall under NPA category.



Causes of NPA

- For growth of business or for project expansion sometimes borrower divert their fund and not paying instalment which ultimately cause in NPA.
- Failure of agricultural crop or project or manufacturing process or business may cause inability to repay loan and ultimately cause bad loan.
- Bank's poor estimation prior to lending loan may cause in NPA.
- Project deadline extension leads to increase in cost which might cause inability of borrower to repay loan.
- Sometimes borrower borrow loan at lower interest rates and after few time interest rates increases, in this situation borrower found himself to pay instalment resulting in NPA.
- Wilful defaulter may cause NPA.
- External factors like natural incidences like flood, storm etc, shortage of material or power supply or raw-material, recession etc.

Objective of study

- To understand seriousness of growing NPA.
- To understand consequences of NPA in Indian economy.
- To know effect of NPA on banks.
- To understand approach of government for NPA management.
- To figure out requirement of preventive steps for NPA.

Limitation of study:

- Data used in this study is secondary and data is collected from various websites like Wikipedia.com and some online available articles.
- This study represents past few years of data which only suggest trend for understanding.
- Some of interpretation is based on perception which might change with time and economic environment and future conditions.

Research methodology

This study is mainly descriptive in nature as it focusses on consequences of NPA on Indian economy, and limited statistical data for trend understanding is used to in this study, which is mainly secondary data like data available from online sites like Wikipedia.com, Dataworldbank.org and from articles like indianexpress.com which are available online.

Growth of Indian banking system

Banking system in India is in use since mid of 18th century, first bank was bank of Hindustan, est. in 1770. Over the time Indian banking system got post-independence effect, after getting independence people were depended on land lords and sahu-kars to get loan and



loan rates are expensive to afford too, in this era general people were not in position to access banks and borrow loan, banks were providing services to limited class of people mainly in urban area of India.

after that, nationalization of banks and liberalization of Indian economy played vital role in forming current banking system. These are key events that affected banking sector to get evolution of banking system. Trust of people builder due to positive reforms and bank deposits were increased considerably too.

Due to increase in deposits banks got financial soundness which allowed them to lend loan which is also contributing to profit of bank as well as economic growth of country, as borrowed loans are used in constructive activities like growing industries, agriculture, etc.

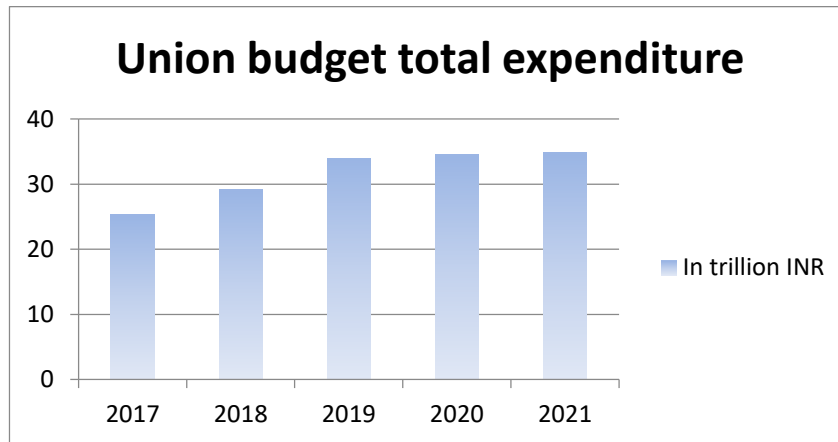
As time passed, banks got more profit from lending loans. And in search of more profit and asset creation, banks formed liberal norms and regulation for lending more loans. But due to liberal loan lending process people who are not eligible or not in condition to repay loan also got loan from banks which leads to not paying loan installment and here term Nonperforming asset came into picture.

Impact of NPA

- Profitability got affected as bank are not gaining any instalment on given loan. Moreover, higher provisioning compared to standard assets should needed that also affect profitability of bank.
- Bank's loan lending ability reduce due to NPA. Which leads to lower to income from interest. Which leads to economic slowdown.
- Due to higher NPA bank try to lower interest rate on deposited and increase interest rate on loan which may prove as a hurdle in smooth financial intermediation process and effect negatively on bank as well as economy.
- Shareholder are engaged with banks to gain profit or for better returns. Due to NPA confidence of shareholder might get damage. People who invest or deposited there money to bank are interested to gain better return but due to NPA bank fail to deliver better return. Due to these not only investment but sometimes deposited might get decreased.
- Which bring bank to money shortage condition. Bank do not have adequate amount of money for smooth functioning. Which also adversely affect economy of nation.



Scenario of union budget expenditure, NPA write-off & GDP

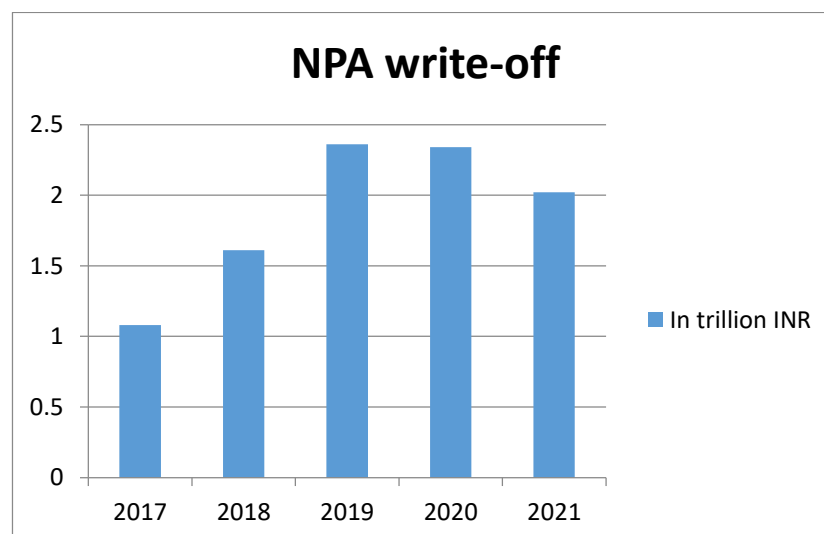


X Axis: Year

Y Axis: Amount in trillion INR

*Data is secondary and collected from Wikipedia.com

Year	Union budget total expenditure(in trillion INR)
2017	25.31
2018	29.20
2019	34.01
2020	34.50
2021	34.83



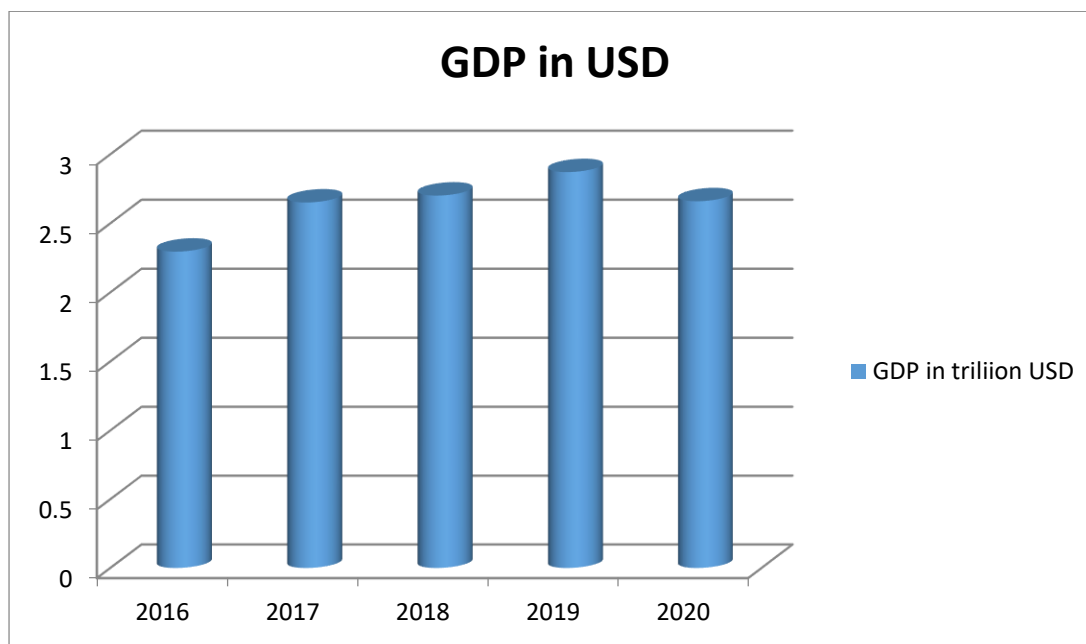


X Axis: Year

Y Axis: Amount in trillion INR

*Data is secondary and collected from article of Indian express.com

Year	Union budget total expenditure(in trillion INR)
2017	1.08
2018	1.61
2019	2.36
2020	2.34
2021	2.02



X Axis: Year

Y Axis: Amount in trillion USD

*Data is secondary and collected from article of Dataworldbank.org



Year	GDP of India(in trillion USD)	Approx. GDP in trillion INR
2016	2.295	173
2017	2.651	200
2018	2.701	204
2019	2.871	216
2020	2.660	200

Conclusion

Banking industry reformed over the time. Many challenges were there in path of progress of banking in India, similarly current situation of NPA is hurdle in growth of current era of baking, but main concern is NPA is not only affecting banks but also affect economy of the country.

This study tried to throw light on how government tackle this problem like by doing write-off bad loans. Currently Write-off loan amount is increased to very high level as shown in this study which itself shows alarming condition for economy of nation. More over theoretical possible impact which is discussed above also have adverse effect on economy. That is why not only bank but also government should take NPA seriously in policy making and new constructive reforms should be taken for lowering NPA which ultimately result in better economy of nation.

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