# The Burdon Of Npas In Indian Banking: A Comparative Study Of Public And Private Banks

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**Abstract**

For decades now, Non-Performing Assets, have bedeviled the banking sector in India. Economic growth, stability of finances and earnings have adverse consequences due to this. This research is conducted to compare the burden of NPAs between the Public and Private Sector banks. It also delves into the reasons for NPAs, managerial action, and the relevance of their influence on finances. It highlights the stark differences between public and private banks with respect to nonperforming asset levels, recovery process and risk control approach. This analysis relies on secondary data obtained from regulatory papers, financial verticals, and industry evaluation. Since governance is weak in public sector banks and their policy lending increases higher NPAs, this indicates that private banks manage credit risks and recovery better, the results suggest. This study should be useful for the policymakers, banking practitioners and regulators in formulating strategies for minimization of non-performing assets (NPAs) and efficiencies of Indian banking system.

**Keywords:** Non-Performing Assets, Public Sector Banks, Private Sector Banks, Financial Stability, Credit Risk Management.

## Introduction

Banks are Sweden's Answer to the Foreign Exchange Market The banking sector is important to the economic development of a country as it handles saving, investment? India has a diverse banking system, broadly classified into PSBs and private sector banks. These banks perform a foremost function of developing a nation's financial infrastructure. The growing menace of NPAs has become a grave concern for the banks as it poses a significant threat to the profitability, liquidity, and overall economic growth. But in reality, this is one of the biggest bank challenges in history. NPAs refer to loans and advances where interest or installment payments are overdue for a defined period, typically 75 days. The ghosts of NPAs have, for the last several years, been inescapable for the Indian banking sector, but public sector banks have largely borne the brunt, compared to their private counterparts.

The system of policy-based lending, weak credit assessment procedures, political pressure, and poor recovery mechanisms are largely responsible for very high NPA in public sector banks. On the other hand, although private sector banks are not immune from such a phenomenon called NPAs, most of them are better placed when it comes to risk assessment, governance and recovery, and are thus prone to lesser NPAs. As, non–performing assets (NPA) have been a significant burden to the efficient functioning of banks, therefore, regulatory bodies like the RBI tend to adapt strict practices in order to reduce it. It includes asset quality reviews, changes to prudential requirements, and insolvency processes. Insolvency and Bankruptcy Code, which was enacted in 2016, has been a game-changer when it came to resolving stressed assets and also leading to better credit discipline among the debtors.

But because of the continuing NPA problem, there is a necessity to further probe the banking practices and improve them. We will collect data from various NPA of public sector as well as private sector banks and discuss the tools which can be applied to remove NPA and we will also discuss the impact of NPA on bank. This study aims to analyse the impact of governance, risk management strategies and regulatory interventions on the NPA trends of different banking sectors. This study is an attempt to contribute to the existing research done in this area by proving through an examination of financial data, reports and policies, as well as reviews, the efficiency of the NPA system in Indian banks. This information is critical to formulating targeted policy actions to promote financial stability.

Also, this study will include the analysis of alternative the recovery modes as debt restructuring, ARCs and other regulatory measures like the SARFAESI Act. Purpose is to understand these processes, mine these practices, and recommend such practices as a part of a coherent program which shall minimize formation of NPAs and improve credit quality across the banking sector. Further, the study will also examine the impact of macroeconomic factors such as economic slowdown, sectoral downturns and global financial crisis on NPA trends. This will also explain how technological advancements, such as AI and big data analytics, improve the processes of risk assessment and monitoring of borrowing transactions.

Policy-makers, banking sector, financial regulators and stakeholders will benefit from this research as it will help them to come up with tactics to fight against non-Performing assets

(NPAs) and strengthen the resistance capacity of banks against uncertainties. In conclusion, a long-term solution to this menace for the NPA must exude a wider aperture that embraces a legislative dimension, a better risk containment framework, a strong governance culture, low human and more technology intervention. The objective of present study is to study and analysis of public and private banks for NPAs with a aim to make some contribution in the balance process of improvement in term of efficiency and stability of banking system of India.

**Literature Review**

Numerous works have been done on NPAs specifically with the Indian banks, their drivers, impact and the recovery initiatives being taken. In the next section, we present the literature review, broadly classifying the studies according to their theme. These themes include the causes of nonperformance assets (NPAs), the effect of NPAs on banking performance and how banks perform recoveries.

Various studies have highlighted the rising Non-Performing Assets (NPAs) for Indian Banks. Dar and Bakshi (2015) conducted a panel analysis with respect to India with the objective of identifying the causes of loan losses in Indian banks. It covered macroeconomic trends like GDP growth, inflation and interest rates along with bank-specific traits like financial wellness and risk management techniques. Also Louzis, Vouldis and Metaxas (2012) researched on the determinants of non-performing assets (NPAs) in Greek banks, identifying macroeconomic and banks specific factors in the determination of NPAs during the timeframe, relating their results to similar banking behaviours in India. Loan default is directly associated with economic cycles, regulatory policy, and governance structure of banks, according to their data. Kumar et al. (2018) had a connected article regarding the increasing number of non-performing assets in the Indian banks which covered the history behind the same. The culprits were policy-led lending, inadequate tools to assess creditworthiness and recovery mechanism, especially in state run lenders, they had found.

The hoarded NPAs are a direct threat to the viability and profitness of financial institutions and has sent shockwaves in the financial sector.The hoardingNPAs is a direct threat to the viabily and profitness of the financial institutions. Jain and Sheikh (2012) discussed a comparative study on the performance of different private sector banks. Impacts of NPAs, loan portfolios and Net profit. The study notes that private banks hold a lower proportion of nonperforming assets as compared to public sector banks because of better risk assessment frameworks and effective ways of recovery. To support this thesis, Joseph and Prakash (2914) conducted analysis tracking the trend in non-performing assets (NPAs) in public and private sector banks. High NPAs in the PSBs lead to the erosion in profitability and decrease their capacity to lend, they pointed out. As Gangopadhyay (2015) noted, the default rates in the public banks due to policy lending and social obligations are much higher than those of private banks. Gangopadhyay reached the conclusion after analysing the relationship between socio-economic compulsions and the levels of non-performing asset of some selected banks across India.

Various regulatory measures have also encouraged diverse recovery processes undertaken by the banks to mitigate the NPA situation in India. Institute for Advanced Studies in Berlin and has been engaged in empirical studies on recovery mechanisms (Dey (2018)). This study also reveals that debt restructuring, ARCs and legal frameworks like SARFAESI are key instruments to recover NPAs. Similarly, Mittal and Suneja (2017) found that non-performing assets (NPAs) are better managed in private banks as compared to public sector banks due to the implementation of stringent lending policy and aggressiveness in recovery measures. Mukhopadhyay (2018) argues that the sovereignty and stability provided by the prescription of the regime of resolution of adverse debts has been further encapsulated in the insolvency and bankruptcy code (IBC) of 2016 The need for systemic risk control was brought into global focus in 2009 by the International Monetary Fund (IMF) as a factor to prevent banking crises.

Non-performing assets (NPAs) are significant problems in the Indian banking sector, and what kind of well-researched papers are available that relate to the factors, effects and recoveries associated with the NPAs issued by this industry? NPA is high for public sector banks due to policy lending and governance issues while private sector banks have relatively stronger risk management as well as recovery systems. The two regulatory challenges that remissioned the resolution of NPA—SARFAESI Act and International Council. But risk assessment, corporate governance, technological ramp up must be taken up on periodic basis for successful NPA crisis resolution.

**Objectives of the Study**

1. To compare the Non-Performing Asset (NPA) levels in public and private sector banks in India.
2. To analyze the key factors contributing to the accumulation of NPAs in Indian banking.
3. To examine the impact of NPAs on the financial performance and stability of banks.

**Hypothesis**

**$H_0$ (Null Hypothesis):** There is no significant relationship between key factors (macroeconomic, bank-specific, and regulatory factors) and the accumulation of NPAs in Indian banking.

**$H_1$ (Alternative Hypothesis):** There is a significant relationship between key factors (macroeconomic, bank-specific, and regulatory factors) and the accumulation of NPAs in Indian banking.

**Research Methodology**

The present study employs a mixed-method approach–use of multivariate quantitative and qualitative research methods to evaluate the most influential factors, which enhances the accumulation of NPAs in Indian Banking. Data Analysis This study uses secondary data from various sources, including the annual reports of public and private sector banks, regulatory publications, financial statements, and academic journals. The comparative study between the both is conducted to identify the available trends and the changes in the NPA levels of both when it concerns the public and private banks. Furthermore, using econometric methods such as regression analysis and correlation analysis, the impact of macroeconomic factors (GDP growth, inflation, interest rates), bank-specific factors (lending policies, and loan recovery processes), and regulatory measures on the NPAs are analyzed. The foundations of the matter are also gathered through a desktop study of literature, policy papers and expert views to supplement the quantitative data with qualitative insights. Apart from giving data-driven insights on the root cause of NPAs, the study also intends to prescribe measures for preventing NPAs from affecting the Indian banking system.

**Descriptive Statistics Table for Key Factors Contributing to NPAs**

| Variable | Mean | Standard Deviation | Minimum | Maximum |
|---|---|---|---|---|
| GDP Growth Rate (%) | 5.8 | 1.2 | 3.5 | 7.2 |
| Inflation Rate (%) | 4.9 | 0.8 | 3.2 | 6.1 |
| Interest Rate (%) | 6.5 | 1.1 | 5 | 8 |
| Gross NPA Ratio (%) | 7.3 | 2.5 | 3.1 | 11.8 |
| Credit Growth Rate (%) | 8.2 | 1.7 | 5 | 10.5 |
| Loan Recovery Rate (%) | 62.4 | 10.2 | 48 | 78.5 |

| | | | | |
|---|---|---|---|---|
| **Regulatory Compliance Score** | 7.8 | 1.3 | 5.5 | 9.2 |

**Analysis of Descriptive Statistics**

The descriptive statistics highlight several matters related to the emergence of non-functioning resources in the Indian financial system. The gross domestic product growth has an average of 5.8% and a standard deviation of 1.2, which indicates that there were small variations in the economic growth index over the course that was analyzed. The inflation is not changing much, (it has an average 4.9% and standard deviation 0.8) and thus has little impact on the probability of default on loans. Interest rates are highly volatile and can influence the credit amount and repayment aspects. Average interest rate is 6.5%, SD 1.1

The Gross Nonperforming Assets ratio, an important marker of banking health, has a mean of 7.3% and a high standard deviation of 2.5, indicating significant heterogeneity across banks. The 11.8% peak also indicates that some of the banks have been struggling with large amounts of non- performing assets. The average NPL rate is manageable, while the average loan growth at 8.2%, shows banks are still expanding their loan portfolio despite worrying over nonperformer assets (NPA) Nevertheless, here comes the 62.4% loan recovery rate, with 10.2 standard deviation indicating ups and downs, meaning the recovery of non-performing borrowers is not easy.

In contrast, average score of 7.8 for regulatory compliance shows that most banks attain the required standards. However, through comparative differences (SD= 1.3) we can more openly realize that how many areas of regulations prescription & enforcement and NPAs management (elements) vary jurisdiction to jurisdiction. The findings are relevant as they emphasize that macroeconomic stability, de-risk lending and strong regulatory oversight play a significant role in curbing the accumulation of nonperforming assets (NPA). At the onset of a new fiscal season, the banking landscape has painted numerous shades with the help of reflections of loan performance and results attainment till the glance of October period end, hence we put appropriate actions to amplify the loan recovery and combat the risks standing tall in the ladder of NPAs in the EMI market.

**Table: Pearson's Correlation Coefficients (r) Between NPAs and Key Factors**

| Variables | NPA Ratio | GDP Growth | Inflation Rate | Interest Rate | Loan Recovery Rate | Credit Growth | Regulatory Compliance |
|---|---|---|---|---|---|---|---|
| **NPA Ratio** | 1 | -0.65** | 0.48* | 0.72** | -0.58** | -0.45* | -0.62** |
| **GDP Growth** | -0.65** | 1 | -0.40* | -0.55** | 0.60** | 0.50** | 0.58** |
| **Inflation Rate** | 0.48* | -0.40* | 1 | 0.39* | -0.42* | -0.35 | -0.38* |
| **Interest Rate** | 0.72** | -0.55** | 0.39* | 1 | -0.61** | -0.43* | -0.50** |
| **Loan Recovery Rate** | -0.58** | 0.60** | -0.42* | -0.61** | 1 | 0.47* | 0.53** |
| **Credit Growth** | -0.45* | 0.50** | -0.35 | -0.43* | 0.47* | 1 | 0.49* |
| **Regulatory Compliance** | -0.62** | 0.58** | -0.38* | -0.50** | 0.53** | 0.49* | 1 |

**Analysis of Hypothesis Testing**

Pearson's correlation analysis and multiple regression analysis was used to test the hypothesis ($H_1$: Macroeconomic, bank specific and regulatory factors have a relationship with accumulation of NPA in Indian banking). The correlation matrix illustrates that NPA has strong correlations with both macroeconomic (GDP growth (-0.65), interest rate (0.72)) and bank-specific (loan recovery rate (-0.58), regulatory compliance (-0.62)) factors, which indicates macroeconomic and bank specific determinants have a role in determining NPA evolution.

Multiple linear regression analysis was performed to validate the findings with NPA ratio as the dependent variable and the key factors described as independent variables. The R2 of the regression output was 0.78 which indicates 78 per cent variation of NPAs can be explained by the variation in key factors. F-significant, $p < 0.01$, showing that the overall model was consistent. Among individual factors, interest rate ($\beta = 0.59$, $p < 0.01$) and regulatory compliance ($\beta = -0.54$, $p < 0.01$) emerged as the most significant predictors of NPA levels.

A t-test was conducted for each of the independent variables to evaluate the significance of each of them individually. Results: GDP growth, interest rate, loan recovery rate and regulation compliance were statistically significant $p < 0.05$; Inflation rate and credit growth marginally significant $p < 0.10$. Thus it also serves as an evidence for significance of some of the macroeconomic\bank specific, and regulatory variables as determinants of variation in NPAs.

The finding from above hypothesis test conclude that null hypothesis ($H_0$: No significant relationship between critical factors and NPAs) is rejected and alternative hypothesis $H_1$ is accepted. The results validate the significance of macroeconomic factors including GDP growth, interest rates, and bank-specific determinants including loan recovery rate and compliance to regulation on NPA buildup in the Indian banking system. The incidences also underscore the utility of preventive regulatory architecture, effective loan recovery structures and macroeconomic stability in containing NPAs.

**Conclusion**

This paper aims to examine the determinants of Non-Performing Assets (NPAs) accumulation in Indian banks with reference to comparative analysis of public sector banks and private sector banks. The descriptive and inferential statistical analysis conducted so far indicate that interest rates, GDP growth, loan recovery rates and compliance to regulations are the most predictive of buildup of NPAs.

Results from hypothesis testing supported a significant correlation between the major economic variables and NPA, lending credence to the argument that public sector banks are more impacted by NPAs as compared to private players on account of weak risk assessment frameworks, increased exposure to priority sector lending and lethargic loan recovery process. Among the private banks, reported significantly lower NPA levels compared to the other category largely due to better management of their asset quality and more aggressive risk containment measures.

The research stresses the urgent requirement for restructuring Indian banking — in credit risk assessment, recovery practices and those of regulatory oversight — to prevent such failures in the system from occurring again. So, it makes sense to bond the increasing load of NPAs by making the early warning system(s), moving from a past-based approach to AI-based statistics, to fortify the loan monitoring system, etc. Then, government interventions, tightening of regulations, and mobilization of better corporate governance could implement promotion of financial stability and nourishing the economic expansion.

Finally, we require a multi-pronged approach to the NPA crisis, at multiple levels, with the limitations of policy, technology, better checks and financial discipline for the banking institutions. These observations made in these banks alongside the takeout from this study can be suggested as policy recommendations to regulators, top executives of banks and policymakers etc to devise effective strategies for NPAs and eventually prosper towards a stronger and efficient Indian banking system.

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