

TRANSFORMATIONS IN INDIAN FINANCIAL SECTOR

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ASSESSMENT OF THE CAUSES OF NON PERFORMING ASSETS AND THE PERFORMANCE OF PUBLIC SECTOR BANKS IN INDIA

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Abstract

The level of NPAs is an indicator of the efficiency of banker's credit risk management and ability of resource allocation to the borrowers. High NPA in Public Sector Banks is a matter of great concern as large portion of Indian economy derived by PSB's. Higher non-performing assets resulted in many bank failures (Nayak et al, 2010). This has been experienced even in developed economies like US and Japan where bad loan crashed the economy. NPA's affect banks lending capacity as it blocked the funds. Realizing NPA's and maintaining provisions suggested by the regulator enhance the burden on the bank. Flow of money in anyways is important for smooth functioning of the banks. High level of NPA does not only affect the banks financial performance but also the image of the bank is on stake when NPA increased. In this article researcher tried to explore the cause and problems of NPA in PSBs, its evolution in Indian banking sectors, shift of NPA and suggested measures adopted by RBI and Government to manage NPA.

Key Words: Non Performing Assets (NPA), PSB's, financial Crisis, assessment

Introduction

Banks are considered as the backbone of Indian economy. But over the past few years NPA (Non Performing Assets) attacked badly on the performance of banking sector. The pain of this attack was noticed by the regulator and government in its early stage, therefore remedial measures were adopted in past. But in recent years NPA has emerged as a canker for banking sector in India. Industry experts and analysts have their own opinions which may differ from RBI and Government opinion in this regard. But, whatever they opined it is sure that high NPA is creating troubles for Public Sector Banks in India. Public sector banks were already facing the challenges of economic slowdown and now the provisioning for NPA has affected their profit at large extent. High NPAs not only affects Bank's profitability but also it affects the credibility of the bank as high NPA is considered as the inefficient credit management of the bank.

In past two years some corruption cases has been registered against the top officers of PSB's, which gives the bad smell of PSB's functioning. Whether it is bribe or political pressure or the bureaucrat's influence, any kind of wrong banking practice will leads NPA and other similar problems. In two major cases of misleading banking practices functioning of PSB's came in the light of public notice. The first case is of Syndicate Bank, where its MD (Managing Director) with his brother-in-law and four others were arrested for allegedly accepting a bribe to enhance the credit limit of private companies bypassing the rules (TNN, 2014). The other case is of Bank of Baroda, where the case of irregularities in transaction (Rs 6,100-crore import remittances effected by BOB Asha Vihar Branch of New Delhi) came to light of public (PTI, 2016). There are many other