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PROBLEMS OF NPA NATIONAL & CO-OPERATIVE BANKS IN WESTERN MAHARASHTRA



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NPA : A Burning Issue in Indian Banking Sector

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Abstract:

Growing non-performing assets is a recurrent problem in the Indian banking sector. Over the past two decades, there have been two such episodes when the banking sector was severely impaired by balance sheet problems. Non-Performing Assets are a burning topic of concern for the public sector banks, as managing and controlling NPA is very important. We conclude by drawing policy lessons from this discussion and suggest some measures that can be adopted to better deal with a future balance sheet related crisis in the banking sector such that the impact on the real economy is minimal.

Keywords: Non-performing assets, Public-sector banks, Capital adequacy, Bank recapitalization, Balance-sheet crisis.

Introduction

Banks play a crucial role in the Indian financial system. More than two-thirds of household savings are channeled through the banking system, which also provides more than 90% of the commercial credit in the country. In a bank-dominated economy, sustained impairment of the banking sector due to balance sheet problems creates a drag on real economic activity and can take the shape of an economic crisis. It is imperative to expeditiously resolve a banking sector crisis so that banks as the primary source of credit can start functioning normally again. In India, banking crisis is a recurrent phenomenon. The financial sector reforms initiated in the country as part of the broader canvas of economic reforms since mid-1991, have led to strengthening of the banking sector in the last two decades. With this the banking sector in India is facing mainly two challenges, higher NPAs culminating into banking crisis along with low profit margins on one hand and challenges from private and foreign banks offering diversified banking services tailored according to the need of customers and compatible with their financial stability.

International Scenario

If the banking system gets into financial crisis, it can engulf the entire economic growth of the economy. If the NPAs touch 10 per cent of the banking assets, it leads to financial crisis of the banking sector wherein the resolution cost of crisis tends to be 2 per cent or more of GDP. In other countries, like Philippines, Korea, Thailand, China, etc., banks were restructured or merged or their NPAs were transferred to Asset Management Companies or Asset Reconstruction Companies. The Indian banking system luckily has escaped the severe crisis in spite of having high NPAs and large losses on account of their ownership with the government. Besides restructuring their capital, the banks have improved their capital adequacy ratio, disclosure