

Public Sector Bank Performance and NPA Trends in India

***Dr. Chandra Prakash Gupta**

Abstract

This study investigates the success of public sector banks (PSBs) in India with a specific focus on Non-Performing Assets (NPAs) over the. As major pillars of the Indian financial system, PSBs have played a significant role in growing financial participation and helping developmental goals. However, their performance has been increasingly tested by a fast growth in NPAs, showing basic deficiencies in credit assessment, risk management, and governance processes. The study, based on secondary data, analyzes the trends, causes, and policy responses to the NPA problem, stressing the impact of macroeconomic downturn, business defaults, and policy-driven loans. Reforms such as the SARFAESI Act, Asset Quality Review, and the Insolvency and Bankruptcy Code have been important in boosting asset recovery and transparency. Despite advances, sustainable performance needs better risk management structures, greater responsibility, and strategic reorganization of PSBs to support long-term financial stability.

Keywords: Public Sector Banks, Non-Performing Assets, Banking Performance, Asset Quality, Financial Stability, Insolvency and Bankruptcy Code, India.

Introduction

The success of public sector banks (PSBs) in India has stayed a major factor of the country's financial stability and economic growth. Since nationalization in 1969, PSBs have been crucial in mobilizing savings, fostering financial inclusion, and directing loans to key sectors like as agriculture, small-scale businesses, and infrastructure (Rao & Tiwari, 2008). Over the decades, these organizations have played a crucial role in furthering India's socioeconomic goal. However, with the opening of the Indian economy in the 1990s and the ensuing exposure of PSBs to growing competition and market dynamics, various structural and operating problems began to develop. One of the most important of these has been the rise in Non-Performing Assets (NPAs)—a recurring problem that has had far-reaching effects for bank earnings and loan growth.

The idea of NPAs links to loans and advances when borrowers fail to make interest or balance payments for a certain time, often 90 days, consequently hurting a bank's earning capability and capital adequacy (Reddy, 2002). NPAs are generally viewed as a mirror showing the health of the banking system, and in the case of India, their growth throughout the years has shown deficiencies in credit evaluation, monitoring, and recovery processes (Das & Ghosh, 2006). The trend showed a rapid drop in asset quality among PSBs, driven mostly by aggressive lending during the credit boom of the mid-2000s and subsequent economic slump post-2011 (Rajan, 2016).

Public Sector Bank Performance and NPA Trends in India

Dr. Chandra Prakash Gupta

The buildup of NPAs has not only stressed bank balance sheets but also affected the overall effectiveness of loan intermediation. As PSBs account for over 70% of the total banking assets in India, their financial hardship directly impacts the larger economy by limiting the flow of capital to productive sectors (Ghosh, 2015). The government and the Reserve Bank of India (RBI) have tried several measures—such as the Asset Quality Review (AQR) of 2015, the formation of Debt Recovery Tribunals (DRTs), and the enactment of the Insolvency and Bankruptcy Code (IBC), 2016—to address the NPA problem. Yet, the continuing growth of stressed assets suggested greater structural inefficiencies, including governance failings, political meddling, and insufficient risk management frameworks (Kumar, 2016).

Despite these problems, PSBs continue to operate as the cornerstone of India's banking system, assuring credit delivery to underbanked areas and supporting financial inclusion. Their dual role—balancing developmental aims with economic sustainability—makes the study of their performance vital. Understanding the trends in profitability, capital adequacy, and NPA rates gives important insights into the changing dynamics of the Indian banking system.

Therefore, this study tries to measure the performance of public sector banks in India with a special focus on NPA trends. By studying important financial indicators and policy events, it aims to discover the underlying reasons behind rising NPAs and examine their effects for banking efficiency and economic stability.

Objectives

1. To analyze the trends and patterns of Non-Performing Assets (NPAs) in Indian public sector banks.
2. To evaluate the impact of rising NPAs on the overall financial performance and profitability of public sector banks.
3. To identify key policy measures and structural reforms undertaken to address asset quality deterioration and enhance banking efficiency.

Research Methodology

This study is based exclusively on secondary data, obtained from authoritative institutional publications such as the Reserve Bank of India (RBI) Annual Reports, Economic Surveys of India, and research papers published by the National Institute of Bank Management (NIBM) and other academic journals. A descriptive and analytical study method has been taken to analyze the link between Non-Performing Assets (NPAs) and the financial success of public sector banks. Trends in important financial measures such as Gross and Net NPA ratios, Return on Assets (ROA), Return on Equity (ROE), and Capital Adequacy Ratios have been examined. Comparative insights are gathered from government data and earlier empirical research to reveal the basic reasons of NPA build up and assess the policy effectiveness in reducing credit risk within the Indian banking industry.

Literature Review

The topic of Non-Performing Assets (NPAs) in Indian public sector banks has been extensively

Public Sector Bank Performance and NPA Trends in India

Dr. Chandra Prakash Gupta

studied due to its effects for financial stability, loan availability, and general economic growth. Early studies stressed that the foundations of NPA accumulation reside in insufficient credit assessment methods, weak tracking systems, and politically influenced loan choices (Reddy, 2002). The nationalization of banks in 1969 was aimed at improving social welfare through priority sector loans; but, over time, this direction led to disproportionate exposure to sectors with significant default risk (Rao & Tiwari, 2008).

With financial reform in the 1990s, public sector banks faced growing competition and operating challenges, showing flaws in risk management and loan repayment (Das & Ghosh, 2006). The adoption of prudential rules in the early 1990s, linked with Basel recommendations, brought greater openness to asset categorization but also revealed the real extent of non-performing loans (Kumar, 2008). Despite these regulatory wins, the ratio of Gross NPAs to total loans stayed higher in PSBs compared to private sector peers, indicating structural problems (Mohanty, 2003).

Empirical study from the mid-2000s show that aggressive loan growth between 2005 and 2010—especially toward infrastructure, steel, and power sectors—contributed to the increase in NPAs during the latter years (Ghosh, 2015). As the economy weakened post-2011, many of these huge corporate loans become non-performing, causing a dramatic jump in stressed assets. Rajan (2016) tied this to the “twin balance sheet problem,” wherein both corporates and banks become financially restricted due to over-leveraging and weak asset yields. The Asset Quality Review (AQR) started by the RBI in 2015 further revealed the scale of underreported bad loans, showing that PSBs have gathered NPAs well above prior estimates (RBI, 2016).

In addition to macroeconomic reasons, governance and management inefficiencies inside PSBs have been mentioned as important contributors to the crisis. According to Kumar (2016), public management and bureaucratic decision-making usually led to delayed debt restructuring and ineffective recovery efforts. Das and Divya (2014) found that weak due diligence and insufficient accountability processes affected the overall efficacy of loan operations. Moreover, the increased frequency of deliberate defaults and business frauds further compounded the problem (Sengupta & Vardhan, 2016).

Policy methods to fight NPAs have grown throughout the years. The formation of Debt Recovery Tribunals (DRTs) in the 1990s and the adoption of the SARFAESI Act, 2002 were early attempts to boost recovery systems. More recent changes, especially the Insolvency and Bankruptcy Code (IBC), 2016, were meant to simplify settlement processes and boost creditor trust. While these steps have improved institutional structures, their effect in decreasing total NPA levels remains modest due to implementation problems and backlog of outstanding cases (Subbarao, 2016).

Overall, the study shows that rising NPAs in PSBs are the product of both structural and cyclical factors—ranging from policy-driven loan choices to macroeconomic uncertainty. Despite several regulatory measures, PSBs continue to face profitability hurdles and capital limits. Thus, a balanced approach combining good risk assessment, improved control, and legislative changes is needed to keep ongoing financial health of India’s public sector banks.

Conclusion

Public Sector Bank Performance and NPA Trends in India

Dr. Chandra Prakash Gupta

The research of public sector bank performance and NPA trends in India demonstrates that while PSBs have been crucial to financial inclusion and economic progress, their operational efficiency has been hindered by ongoing asset quality difficulties. Fast credit expansion, notably in infrastructure and business sectors, coupled with weak risk management, resulted in a substantial surge in NPAs. The government and RBI enacted many measures—such as the SARFAESI Act, the Asset Quality Review, and the Insolvency and Bankruptcy Code—to restore financial discipline and enhance recovery processes. However, the effectiveness of these changes hinges heavily on successful execution, improved governance, and responsible lending practices. Sustaining the functioning of PSBs will need a change toward data-driven credit evaluation, greater accountability, and professional management autonomy. Only via these actions can the Indian banking industry attain long-term stability and regain public trust.

***Lecturer in E.A.F. M
S.P.S.B. Govt. College
Shahpura, Bhilwara (Raj.)**

References

1. Agarwal, R. N. (2003). Non-performing assets in Indian banking: Trends and impact. *Economic and Political Weekly*, 38(22), 2323–2330.
2. Bhide, M. G. (2000). Banking sector reforms: Rationale and impact. *Indian Economic Journal*, 47(4), 36–45.
3. Das, A., & Ghosh, S. (2006). Financial deregulation and efficiency: An empirical analysis of Indian banks during the post-reform period. *Review of Financial Economics*, 15(3), 193–221.
4. Das, A., & Divya, K. (2014). Non-performing assets in Indian public sector banks: Causes and remedial measures. *Journal of Commerce and Accounting Research*, 3(4), 15–23.
5. Ghosh, S. (2015). Banking sector distress and credit slowdown: Evidence from India. *Indian Economic Review*, 50(1), 87–108.
6. Kumar, S. (2008). Performance of Indian public sector banks and the challenge of NPAs. *Journal of Business and Economic Policy*, 2(3), 41–58.
7. Kumar, V. (2016). Governance and accountability in Indian public sector banks. *Economic and Political Weekly*, 52(29), 22–29.
8. Mohanty, D. (2003). Asset quality in Indian banks: Issues and trends. *Reserve Bank of India Occasional Papers*, 24(2), 115–139.
9. Rajan, R. (2016). India's banking challenges and the twin balance sheet problem. *RBI Bulletin*, 70(5), 10–19.
10. Rao, K., & Tiwari, P. (2008). Public sector banks in India: Performance and efficiency analysis. *Indian Journal of Finance*, 2(7), 24–35.

Public Sector Bank Performance and NPA Trends in India

Dr. Chandra Prakash Gupta

11. Reddy, Y. V. (2002). Parameters of banking reforms in India. Reserve Bank of India Bulletin, 56(12), 1211–1220.
12. Reserve Bank of India. (2016). Report on Trends and Progress of Banking in India 2015–16. Mumbai: RBI.
13. Sengupta, R., & Vardhan, H. (2016). Non-performing assets in Indian banks: Causes and consequences. Indira Gandhi Institute of Development Research Working Paper.
14. Subbarao, D. (2016). Banking reforms and financial stability: The unfinished agenda. Economic and Political Weekly, 52(30), 15–19.
15. Vasudevan, A. (2003). Banking sector reforms in India: An overview. Economic and Political Weekly, 38(12), 1257–1264.