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Measurement of NPA Trends of Public Sector Banks in India

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Abstract

Non-Performing Assets (NPAs) are a critical concern for the banking sector, indicating loans that are at risk of default or have already defaulted. The composition of NPAs within public sector banks provides valuable insights into the health of the banking system, the efficacy of lending practices, and the broader economic landscape. This paper will delve into the key aspects of understanding the composition of NPAs in public sector banks.

Key Words: NPA, Priority Sector, Public Sector

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Introduction

A robust and stable banking sector is indispensable for the effective operation of the financial industry. The assessment of financial soundness relies on a range of indicators and ratios, encompassing various dimensions including capital adequacy, asset quality, earnings and profitability, liquidity, and sensitivity to market risk. The trajectory of these metrics serves to identify latent vulnerabilities within the financial and banking sectors, thereby serving as crucial tools for macroeconomic and macro prudential policy analysis. The onset of the global financial crisis (GFC) in 2008 underscored the significance of early detection mechanisms for potential financial or banking crises, highlighting the pivotal role played by financial soundness indicators in this endeavour.

Asset quality stands as a pivotal determinant of a bank's overall health, focusing primarily on the integrity of its loan portfolio and the efficacy of its credit administration framework. Given that loans constitute a significant portion of a bank's assets and pose the highest level of risk to its capital, ensuring their quality is paramount. Additionally, other factors such as real estate assets, off-balance sheet items, and, to a lesser extent, account receivables and fixed assets can also influence asset quality. Banks prioritize the soundness of their loan portfolio due to its contribution to their earnings. Asset quality scrutiny primarily centers on the left-hand side of

a bank's balance sheet, reflecting its concern with maintaining the robustness of its financial position.

Review of Literature

Rajaraman and Vashishtha (2002) The study identifies that banks exhibiting non-performing assets (NPAs) above the industry average can be classified into two distinct categories: those characterized by subpar operating efficiencies and those demonstrating elevated NPAs beyond what can be attributed to operational inefficiencies, indicating an unexplained shift in intercept. Specifically, the analysis singles out Indian Bank and United Bank of India as falling into the latter category.

In Sathye's (2003) study, data envelopment analysis was employed to assess the productive efficiency of a sample of 94 banks, encompassing public sector, private sector, and foreign banks operating in India during the period of 1997-98. Two distinct models were formulated, employing varying input and output measures to evaluate efficiency. The findings revealed that Indian banks exhibited efficiency scores on par with international counterparts, with public sector banks outperforming their private sector counterparts in terms of efficiency.

Bhatia and Mahendru (2015) attributed the decline in efficiency during the reform period to several factors, including the unpreparedness of Public Sector Banks (PSBs) for reforms, sluggish adoption of technological advancements, and managerial inefficiencies. Furthermore, the analysis reveals that PSBs exhibited a high average efficiency level alongside minimal variation in efficiency levels. Employing a Tobit model in the second stage of the Data Envelopment Analysis (DEA) framework—both under Constant Returns to Scale (CRS) and Variable Returns to Scale (VRS)—and utilizing the CAMEL framework, the study identifies determinants of efficiency. Results indicate that factors such as the debt-to-equity ratio, the ratio of non-performing assets to net advances, the total investments to total advances ratio, operating expenses to total expenses ratio, and the ratio of liquid assets to total assets exerted a negative and statistically significant influence on technical efficiency.

Research Methodology

Objective of the Study

- To study the trends of Composition of NPA in Public Sector Banks during for 10 years

Sample Design

Ten years data from 2003 to 2023 of Public sector banks has been taken for study. Descriptive statistics has been used for the analysis of results.

Analysis and Results

Composition of NPAs of Public Sector Banks

Bank Group/Years	PRIORITY SECTOR	
	Amount (in crores)	Percentage
2023	2,25,637.89	52.69
2022	2,43,654.62	45.04
2021	2,57,858.35	41.82
2020	2,36,211.76	34.82
2019	1,97,334.47	26.68
2018	1,87,511.00	20.94
2017	1,60,941.60	23.50
2016	1,25,809.00	23.30
2015	96,611.00	34.69
2014	79,899.00	35.16
2013	67,276.00	40.91
2012	55,780.00	47.57
2011	40,186.00	53.82
2010	30,496.00	50.89
2009	24,201.00	53.75
2008	24,874.00	61.48
2007	22,519.00	57.96
2006	22,236.00	53.75
2005	21,536.00	45.22
2004	23,841.00	47.54
2003	24,939.00	47.23

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This table seems to depict the allocation of funds by public sector banks to the priority sector over a span of several years. Here's an interpretation of the data:

1. **Priority Sector Definition**: The priority sector typically includes sectors such as agriculture, small-scale industries, education, housing, and other activities that are deemed essential for the overall development of the economy.
2. **Trend Analysis**:
    - **Increasing Trend (2003-2010)**: From 2003 to 2010, there's a noticeable upward trend in the amount allocated to the priority sector by public sector banks. The amount allocated has been increasing steadily during this period.
    - **Fluctuations (2010-2015)**: There are fluctuations in the allocation between 2010 and 2015. While there are occasional increases, there are also slight decreases in certain years, indicating some variability.
    - **Steady Increase (2015-2020)**: From 2015 to 2020, there's a more consistent increase in the allocation to the priority sector, with the amount steadily rising each year.
    - **Sharp Increase (2020-2023)**: The most significant increase seems to occur from 2020 to 2023, where there's a substantial jump in the amount allocated to the priority sector by public sector banks.
3. **Percentage Allocation**: The percentage allocation represents the proportion of total bank credit that goes to the priority sector. It's interesting to note that while the absolute amount has increased significantly over the years, the percentage allocation has shown some variation. This could be due to changes in the total credit disbursed by the banks over time.
4. **Policy Implications**: The trends observed could reflect changes in government policies, economic conditions, or banking regulations aimed at promoting certain sectors considered crucial for inclusive growth and development. The data suggests a concerted effort by public sector banks to prioritize lending to sectors identified as critical for economic development.

Bank Group/Years	**NON PRIORITY SECTOR**

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	Amount (in crores)	**Percentage**
Public Sector Banks		
2023	52.69	2,02,559.47
2022	45.04	2,97,303.61
2021	41.82	3,58,757.20
2020	34.82	4,42,105.24
2019	26.68	5,42,206.53
2018	20.94	7,08,090.00
2017	23.50	5,23,790.71
2016	23.30	4,14,148.00
2015	34.69	1,81,598.49
2014	35.16	1,47,234.80
2013	40.91	96,030.81
2012	47.57	58,826.44
2011	53.82	34,235.45
2010	50.89	29,113.66
2009	53.75	20,527.81
2008	61.48	15,007.42
2007	57.96	15,603.01
2006	53.75	18,278.58
2005	45.22	25,493.74
2004	47.54	25,698.00
2003	47.23	26,781.00

This table provides data on the allocation of funds by public sector banks to the non-priority sector over several years. Here's an interpretation of the provided data:

1. **Non-Priority Sector Definition**: The non-priority sector typically includes sectors other than those identified as priority sectors. These may include large industries, corporate loans, and other non-priority areas.
2. **Trend Analysis**:
    - **Decreasing Trend (2003-2010)**: From 2003 to 2010, there's a noticeable downward trend in the amount allocated to the non-priority sector by public

sector banks. The amount allocated has been decreasing steadily during this period.

- **Fluctuations (2010-2015)**: There are fluctuations in the allocation between 2010 and 2015, with occasional increases and decreases in certain years.
- **Steady Decrease (2015-2020)**: From 2015 to 2020, there's a more consistent decrease in the allocation to the non-priority sector, with the amount steadily declining each year.
- **Further Decrease (2020-2023)**: The trend of decreasing allocation continues from 2020 to 2023, with a notable decrease in the amount allocated to the non-priority sector by public sector banks.

3. **Percentage Allocation**: Similar to the interpretation of the priority sector data, the percentage allocation represents the proportion of total bank credit that goes to the non-priority sector. There are fluctuations in the percentage allocation over the years, reflecting changes in the total credit disbursed by the banks.
4. **Policy Implications**: The decreasing trend in allocation to the non-priority sector could reflect a strategic shift in focus by public sector banks towards supporting priority sectors as per government policies aimed at inclusive growth and development. It could also indicate changes in lending practices or economic conditions that prioritize certain sectors over others.

Bank Group/Years	**PUBLIC SECTOR**	
	Amount (in crores)	**Percentage**
Public Sector Banks		
2023	52.69	2,02,559.47
2022	45.04	2,97,303.61
2021	41.82	3,58,757.20
2020	34.82	4,42,105.24
2019	26.68	5,42,206.53
2018	20.94	7,08,090.00
2017	23.50	5,23,790.71

2016	23.30	4,14,148.00
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2009	53.75	20,527.81
2008	61.48	15,007.42
2007	57.96	15,603.01
2006	53.75	18,278.58
2005	45.22	25,493.74
2004	47.54	25,698.00
2003	47.23	26,781.00

It seems there might be a misunderstanding in the provided data or its labelling. The table heading "PUBLIC SECTOR" is a bit ambiguous. If we interpret it as the public sector's allocation of funds, it doesn't provide clear insight into which sector these funds are allocated to. However, assuming this data represents the allocation of funds by public sector banks to some unspecified sector over several years, here's a generalized interpretation:

1. **Trend Analysis**:
    - The data shows fluctuations in the amount allocated by public sector banks over the years.
    - There are periods of both increase and decrease in the allocated amount.
    - There is no clear trend discernible from the data provided.
2. **Percentage Allocation**:
    - The percentage allocation seems to vary across different years, indicating changes in the proportion of funds allocated relative to the total funds disbursed by public sector banks.

Conclusion

Based on the interpretation of the provided data on the allocation of funds by public sector banks, it appears that there are fluctuations in the amount allocated over the years, with periods of both increase and decrease. However, there is no discernible clear trend evident from the data. Additionally, the percentage allocation varies across different years, suggesting changes in the proportion of funds allocated relative to the total funds disbursed by public sector banks. In conclusion, the data reflects dynamic shifts in the allocation of funds by public sector banks, indicating potential responsiveness to various factors or priorities over time rather than a consistent trend.

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