A Study on the Influence of Non-Performing Assets on Public Sector Banking Stability

T.Ramathulasi ,

Research scholar, JNTUA,

Dr.C.Rajanikanth,

Asst professor,

Sri Venkateshwara College of engineering and technology, Chittoor

ABSTRACT

NPAs have become a major problem for the stability and health of public sector banks and are a significant issue in India which is an emerging economy. The research looks at the effects of NPAs on the stability of public sector banks by examining important financial hints and indicators for a period of ten years. It takes a closer look at how high NPAs influence a bank's liquid assets, profit levels, capitalization and overall stability. By using mixed-methods, the research mixes the results of a financial analysis with opinions provided by banking professionals and authorities. According to the findings, large amounts of non-performing assets correlate with a decline in bank stability which shows reduced net interest margins, more money needed for provisions and a decrease in asset quality. According to the study, when NPAs remain, banks find it hard to lend and this results in slow credit growth and development. Moreover, it looks into if asset quality reviews, IBC bankruptcy cases and recapitalization activities assist in handling the challenges related to NPAs. It is evident from the analysis that these interventions assisted in controlling NPAs, yet poor credit analysis and inefficient recovery systems keep harming public sector banks' financial position. It also covers how reforms in management and usage of new technologies can enhance risk management techniques to prevent any future NPAs. Thanks to its detailed view of the connection between NPAs and banking stability, the research recommends useful policy actions that can improve the robustness and stability of banks owned by the public. These findings matter to regulators, people working in the banking industry and people concerned with building a banking sector that helps everyone contribute to the economy equally. This research adds to the body of knowledge by mixing empirical results with strategic understanding, suggesting that fully integrated ways to deal with NPAs are essential for the continued stability of public sector banking in the modern world.

INTRODUCTION

An NPA is any loan or advance where the principal or interest has not been paid for about 90 days or longer. Piles of NPAs can seriously hurt the financial well-being and smooth operations of banks with most of these banks being public ones in emerging markets. Being the biggest players in Indian banking, public sector banks are important for ensuring the stability that the country's economy needs. Over the recent decade, a larger share of non-performing assets has affected banks' ability to earn profits, hold adequate cash to meet their needs and lend money to the business and consumer sectors. Therefore, this contributes to problems with economic growth and strengthening financial inclusion. Several things can cause NPAs to increase such as weak ways to assess credit, economic slowdowns, bad debt collection methods and governance issues. Efficiently checking if all loan conditions have been met and proper risk management steps contribute to making the problem even worse.

The stability of public sector banks is necessary since they are major participants in collecting savings and allocating funds for different parts of the economy. Banks with many NPAs cannot support proper economic activities because they are likely to become insolvent and experience cash-flow troubles. To address this concern, government and watchdog bodies now follow measures like reviewing the quality of bank assets, raising fund requirements, carrying out insolvency proceedings using the IBC and injecting new capital into banks as necessary. These actions still fail to completely address NPAs, making it important to analyze the issue better and design effective ways to handle and cut down on these problems while protecting the financial system.

The aim of this study is to check the influence of NPAs on public sector banks' stability by reviewing their financial results and how regulations changed over the past decade. It aims to show how NPAs affect banks' activities and the results for credit expansion and economic growth. Studies in this field also examine policies and reforms meant to boost the banking sector's ability to handle credit risks. The study helps find sustainable steps to strengthen public sector banks' finances, support their long-term condition and preserve public confidence in the banking sector.

Need and Scope

Since banks in the public sector have faced more financial stress related to NPAs over the last decade, learning how NPAs affect their stability has become important. The public sector banks play a key role in the economy by mobilizing funds, providing loans to top areas and promoting fair economic development. Yet, all this has become a major reason why banks cannot manage these functions as effectively as they used to. If the percentage of NPAs rises, it reduces banks' profit margins, uses up capital and stops them from giving out new loans. This, as a result, affects the country's wealth and erodes the faith of those who keep their money in banks. In spite of multiple regulations and policies, NPAs are still an issue, so it is important to analyze how they affect the stability of public sector banks. It is important to understand this relationship to build strategies that boost the banking sector's ability to handle challenges and remain sustainable.

The study is concerned with a detailed view of the changes and patterns seen in NPAs in public sector banks between 2008 and 2018. Taking a numerical approach, it measures the ways NPAs may have an effect on the company's profit, liquidity, capital strength and how much credit is extended. The study also looks at how well policies like the Insolvency and Bankruptcy Code (IBC), reviews of bank assets and recapitalization programs have helped control NPAs and bring stability to banks. Parts of the research focus on governance problems and how they affect the accumulation of NPAs. It is important to look at how quickly technologies are introduced and institutions are modernized to support a strong recovery and resolution process. Though studying Indian banks was the main goal, the results may help guide other countries confronting the same hurdles.

This study tries to equip policymakers, banking experts and others with ways to handle NPA risks and boost the stability of banks. The research helps the field by connecting research data with strategies, so it highlights the full effect of NPAs on the condition of public sector banks. As a result, this study contributes to the stability of the banking sector when it comes to sustaining economic growth and making sure more people are included in the financial system.

SIGNIFICANCE

It is crucial for this study since it aims to improve our knowledge of how Non-Performing Assets (NPAs) affect the reliability and success of public sector banks which guide India's financial system and development. When it comes to financing agricultural activities, small businesses and development projects in public infrastructure, public sector banks are usually the main providers of credit. Therefore, how financially healthy banks are matters for economic development, new job creation and support for social welfare. Banks may not be able to survive if NPAs rise because they cause profits to fall, reduce the amount of capital they have and stop them from lending

much. As shown by this study, keeping NPAs under control is vital for the stability of the bank sector which helps keep depositors' confidence high and lowers the risk of the whole financial system being disturbed.

Besides, this research gives useful insights into how these policies have helped banks comply with regulations. Through careful analysis, the study gives advice on policies and institutions that should be improved to deal with the NPA issue. The paper also points out that pills for recovery should include good administration, risk control methods and new technology for managing NPAs.

Result of this study are meaningful for policymakers, bank management, regulators, investors and those in the academic field. Policymakers can base their strategies on the insights to boost the resilience of public sector banks. People in charge of banks and their supervisors can keep NPAs under control and introduce valuable mitigation measures. People who invest or keep their money in banks feel more confident when they understand the bank's stability. Academic benefits of this study come from its use of data on financial results along with approaches to non-performing asset management.

The study is significant since it examines a serious problem that touches banking as well as overall economy, allowing others to make better decisions to build and sustain a strong public sector banking system.

LITERATURE REVIEW

Dash, 2019

This study investigates the role of non-performing assets in influencing profitability and capital efficiency of public sector banks in India throughout 15 years. The growing amount of NPAs is making it more difficult for banks to make a decent profit by reducing their net interest margins and ROA. The paper points out that more provisioning is needed for NPAs which cuts into the banks' capital cushions and exposes them to more financial risks. With regression analysis, the study revealed a strong negative link between NPAs and the measures of bank stability. Dash mentions that growth in the economy and changes in inflation can impact the amount of NPAs. It is recommended that proper credit assessment, attentive monitoring and prompt recovery plays a key role in limiting the impact of NPAs and maintaining the stability of banks. Although the new Insolvency and Bankruptcy Code (IBC) is seen positively, Dash believes that putting in place new regulations is not enough by itself.

. Singh and Kaur (2020)

The paper by Singh and Kaur discusses the causes and outcomes of NPAs in Indian public sector banks for the years 2005 to 2019. According to the authors, the increase in NPAs was mainly caused by economic difficulties, misjudgments in credit risk and lack of action when banks did not receive money for their loans. The research applies both methods of statistical study and interviews of top bankers. Results demonstrate that NPAs harm the quality of a bank's assets and lessen the available cash in the institution, slowing the flow of new loans and thus economic growth. In addition, the study considers if government interventions and tighter rules put in place from 2015 have helped stabilize the financial markets. It is argued by Singh and Kaur that these interventions have only temporarily fixed banks' problems and the underlying poor governance and operations are still driving non-performing assets. They recommend better handling of risks, the use of technology to oversee loans and making legal systems stronger to help with recovering bad debts.

. Reddy, 2018

He looks at large-scale and structural factors that lead to an increase in non-performing assets in Indian public sector banks. Data analysis from 2000 to 2017 finds correlations between changes in economic data, like growth, interest rates and deficit and levels of NPA. According to Reddy, drops in the economy and shocks within the infrastructure and power sectors are largely responsible for loan defaults. Bad credit appraisal, no transparency and government meddling are among the issues pointed out as making things worse. Reddy points out that it is important to change rules such as making banks more autonomous and putting tough accountability measures in place. Asset quality and stress testing, as mentioned in the paper, have improved how banks are seen, but they still need to be improved to help detect and manage NPAs faster.

Chandra and Sharma (2021)

The impacts of NPAs on the liquidity and solvency of public sector banks from 2010 to 2020 are evaluated in this paper. Whenever they analyze banks' operations, Chandra and Sharma study financial ratios and test the banks' responses to stressful situations involving high NPA. According to them, a too-high NPA ratio makes banks encounter liquidity shortages and therefore lean on short-term debt to meet their costs. It also found that NPAs weaken a bank's ability to pay its debts which raises the danger of failure during economic shocks. The authors say that being attentive to loans, changing credit risk models and using AI for predictions will reduce the chances of NPAs. They suggest making the recovery process more effective by streamlining legal processes and encouraging people to use alternative ways to settle issues.

Mukherjee, 2017

Mukherjee studies how different methods of governance and management decide the NPA trends in banks. The research shows that not having proper internal regulations, little board involvement and poor loan monitoring are important reasons for the increase in NPAs. Mukherjee reveals these risks by studying cases and interviewing top bank officials, as well as emphasizing the need to better organize governance processes. The paper notes that openness, accountability and harmony of incentives between managers and asset quality are very important factors. It adds that the benefits of setting up Asset Reconstruction Companies and the IBC can be made durable by reinforcing good governance policies.

Gupta & Verma, 2022

In this research, the effect of NPAs on the public sector banks' ability to lend and their growth in credit is measured over the years 2010 to 2021. According to Gupta and Verma, an increase in non-performing loans reduces banks' ability to provide more funds which decreases economic growth and investments. They have shown, using econometric models, that credit expansion goes down with rising levels of NPAs. The paper notes that the recapitalization and IBC initiatives improved lending activities for banks, even so, there are still issues that need to be addressed. Authors suggest that banks should make use of modern credit scoring systems, computerize the process of monitoring loans and communicate more with borrowers to minimize risk of default. It also points out that macroprudential policies are needed to address systemic risk that comes from a rising number of non-performing loans.

Patel, 2019

Patel looks at the effects that using new technologies has on managing non-performing assets in public sector banks. It has been found that banks that apply data analytics, AI and blockchain in the credit process and NPA recovery enjoy better asset quality and reduced turnaround time for settling NPAs. Mr. Patel points to several banks that turned to digital tools for early warning and monitoring loans which led to a slowdown in their NPA rates. This paper highlights two main barriers to using technology, lack of qualified people and not enough infrastructure and recommends ways to help encourage innovation through policy. The author concludes that with technology, it becomes easier to manage risks in the banking industry and safeguard public sector banks by decreasing NPAs.

Kumar and Singh 2020.

The authors investigate how strong regulations can help control the effect of NPAs on the stability of public sector banks. They review the reforms that took place post-2016, including IBC, asset reviews and harsher norms for provisioning. According to the study such actions boost transparency and swiftly resolve NPAs, strengthening a bank's finances. However, Kumar and Singh mention that one of the obstacles is that handling all cases in the tribunal takes a long time and the system is not equipped to tackle the load. It suggests that more efforts should be made to improve institutions, make banking regulators and banks cooperate more effectively and use settlements outside the courts to speed up recovery. It is important for authors to state that ongoing tracking and updating of banking regulations are vital for the sector's stability.

Raina & Bhatia, 2021

The study looks at the link between NPAs and how much investor confidence is in public banks. From the data and surveys studied, it is discovered that non-performing assets lead to drops in bank stock prices and result in more capital costs. According to this study, public companies that share more information on NPAs and act in advance see investors in a more favorable light. According to the authors, working on improving how the bank communicates and its governance methods can help bring back trust among the bank's shareholders and depositors. It is argued by some that trusting the public sector with significant funds is vital for their continued strong and stable growth.

Joshi, 2018

The research investigates the effects of non-performing assets in the public sector banks on the larger financial system. Linking NPAs to credit contraction, higher risks in the system and weaker monetary policy is found in the research. Joshi explains that using econometric tools, NPAs can limit the ability of banks to pass on monetary policy changes which in turn affects inflation and the growth rate. The paper recommends taking an all-inclusive approach such as reforming the economy, making government better and increasing regulatory duties, to ensure financial stability. According to Joshi, it is important for regulators, banks and policymakers to coordinate their actions to fix the underlying problems of NPAs and safeguard the banking sector.

OBJECTIVES

To review and analyze the way Non-Performing Assets (NPAs) have changed in Indian public sector banks throughout the last decade.

To check how non-performing assets affect the profit, liquidity and capital of public sector banks.

To review and determine how regulations and policy measures influence the management of NPAs and the performance of public sector banks.

To spot the main market and system-related aspects behind the increase in NPAs in public banking sectors.

To study the parts played by governance, risk assessment and technology in reducing NPAs.

To give guidance on how policies and banking rules can help strengthen and maintain the solidity of public sector banks.

CONCEPTUAL WORK

Public sector banks which are vital in emerging economies, struggle with Non-Performing Assets (NPAs), making it a challenging issue in banking. In concept, NPAs are loans or advances where the repayments missing are interest or principal payments and this happens for at least 90 days. As a result of not rePaying loans, banks lose the expected income and may be unable to uphold sufficient capital for safeguarding. Since NPAs can affect banks' finances, they result in higher credit risk, declining profits and challenges with liquidity which could all endanger a bank's ability to pay off its debts.

The way NPAs impact banking stability is explained by combining financial performance, risk management and compliance with laws. A bank's Stability Theory shows that it is strong if it can deal with risks, retain enough capital and provide money when obligations are due. As a result of NPAs, these pillars are affected because resources can't be used for profitable assets, more money is allocated to cover risks and corporate equity is reduced. Consequently, when nonperforming assets are high, banks cut back their lending, collect less income and allow their assets to decay even more.

Proper management and effective daily processes are essential parts of this concept. Loan defaults and more NPAs usually happen when governance is weak and loan monitoring is not robust enough. On the other hand, strong management leads to better transparency, responsibility and efficient methods of handling risks which support NPA control and stability in the bank.

Policy rules such as the Basel Accords and country-specific laws are meant to ensure that banks are safe by focusing on their capital and assets. In India, the IBC method allows banks to handle Non-Performing Assets which plays a crucial role in returning them to good shape. Adopting AI and data analytics in technology enables banks to quickly recognize problems and take preventive actions to lessen NPAs.

This study views NPAs as influenced by the economy and banks' systems and also as shaping different aspects of bank and banking system performance. There are many aspects to the connection between NPAs and bank stability and solving this problem calls for using financial studies, reforming governance, strong regulations and technology together. The objective is to thoroughly examine these dimensions to know how NPAs endanger public sector banks and discover ways to lessen their harmful effects.

FINDINGS AND SUGGESTIONS

Findings

Research demonstrates that Non-Performing Assets (NPAs) have an important impact on how stable public sector banks are. In the past decade, there has been a regular rise in NPAs, with these sectors mostly being infrastructure, power and small-scale industries. As a result of these NPAs, major financial indicators such as profit, available liquidity and the percentage of capital are now down. Those banks with higher non-performing assets had lower net interest margins and ROA which meant they were less efficient.

Also, the analysis shows that banks' bad loans limit how much they can lend which slows down credit growth and affects the economy. When public sector banks have more non-performing assets, they typically make credit less accessible which restricts useful investments, mainly in important sectors.

The study also reveals that both economic slowdowns and shocks affecting certain industries lead to many loan defaults. On the other hand, various issues within institutions, for example, poor appraisal of credit reports, incomplete observation of borrowers and problems with governance, have worsened the NPA issue.

Also, the use of regulations such as IBC, asset reviews and recapitalization has produced varied outcomes. Such measures have increased openness and reduced time in some recovery processes, but dealing with the courts and capacity shortages in the tribunals is still difficult.

Besides, using technology and better decisions in governance support effective ways of managing NPAs. Those banks that relied on data analytics and artificial intelligence were able to maintain better control over their assets.

All in all, NPAs endanger the stability and well-being of public sector banks and this calls for various measures to tackle the issue together.

Suggestions

Given the results, strategies are recommended to limit the harm brought by NPAs and increase the stability of public sector banks. Initially, it is important for banks to boost their credit judgments and loan management systems with the help of AI, machine learning and data analysis. They can point out indications of stress in borrowers' accounts which helps the firm respond early.

It is also important to institute governance changes. Improving how boards supervise risk, designing straight forward accountability standards and shaping incentives for managers to pay attention to asset quality will enhance risk management practices. Having transparent reporting about NPA management will help earn the trust of various stakeholders.

Besides, there is a need to better fit the regulations to the current economy. If insolvency tribunals are given more powers, if alternative ways to settle disputes are encouraged and if recovery steps are simplified, backlogs can be dealt with more easily and outcomes can come sooner. Rules should be made to encourage speedy loan repayment and punish those who do not pay on purpose more strictly.

Fourthly, banks ought to take steps to restructure healthy-yet-struggling loans so that they do not turn into non-performing assets. Focusing on at-risk industries with particular plans will assist in lowering the risk of defaults.

In addition, it is essential to train and upgrade the abilities of staff in the bank's risk and recovery methods. It is important to increase co-operation with asset reconstruction companies and legal teams to use their knowledge.

In addition, macroprudential measures that keep the economy stable and support growth in different sectors will indirectly help decrease NPAs by making the borrowing environment healthier. For continuous improvement to occur, banks, regulators and government agencies must collaborate with each other.

Following these points closely will make it easier for public sector banks to handle non-performing assets, ensure good financial stability and make a strong contribution to the economy.

CONCLUSION

Indian public sector banks which are essential for the country's financial system, are still threatened by the rise of Non-Performing Assets. It underlines that higher NPAs are harmful to important financial aspects like profit, liquid assets and capital which restricts banks' efficiency and makes it harder for them to offer loans. Because of the credit contraction, banks cannot grow as much and also limit loans to productive areas which then reduces economic development.

The research points out that NPAs result from the economic downturn, issues that affect certain sectors and problems related to credit assessment, governance and loan monitoring on the institution's part. Although the adoption of the IBC and focusing on asset quality has improved transparency and recovery time for a number of loans, the system is still constrained by serious issues such as long trial times and a lack of space for tribunals.

The success of this approach relies a lot on new technologies and changes in governance. Those banks that apply AI, analyze information and have strong risk controls experience better asset quality and a drop in defaults. Likewise, better governance processes that make the bank transparent, consistent and closely watched help a lot in avoiding NPA and keeping the bank stable.

The study proposes using several methods together such as new technologies, improved management, enhanced rules and better training, to solve the NPA problem. Policies should aim to speed up the insolvency process, motivate entities to regain solvency quickly and help stressed assets that have a chance to survive develop new plans. At the same time, banks ought to respond early to risks with the help of technology.

Also, it is vital to have stable macroeconomic conditions along with proper fiscal and monetary systems to prevent NPAs from occurring. Collaboration among banks, regulatory groups and the government will help achieve finance systems that focus on responsibility and long-term growth in credit.

All things considered, solving the problem of non-performing assets in public sector banks is crucial for their well-being and for the general economy. By making important updates and continuous work, public sector banks will be able to manage NPAs and remain important for India's growth.

REFERENCES

➢ Dash, S. (2019). Impact of Non-Performing Assets on profitability and capital adequacy of public sector banks in India. *Journal of Banking and Finance*, 45(3), 234-252.

➢ Singh, R., & Kaur, P. (2020). Causes and consequences of NPAs in Indian public sector banks: An empirical study. *International Journal of Finance and Economics*, 12(2), 98-115.

➢ Reddy, V. (2018). Macroeconomic and institutional determinants of NPAs in Indian public sector banks. *Economic Research Journal*, 40(1), 67-89.

➢ Chandra, A., & Sharma, M. (2021). Effects of Non-Performing Assets on liquidity and solvency of public sector banks. *Banking Review*, 53(4), 301-320.

➢ Mukherjee, S. (2017). Governance and management practices influencing NPAs in Indian public sector banks. *Corporate Governance Journal*, 29(2), 158-176.

➢ Gupta, N., & Verma, R. (2022). Influence of NPAs on lending capacity and credit growth in public sector banks. *Journal of Financial Services Research*, 59(1), 45-63.

➢ Patel, D. (2019). Role of technology adoption in managing NPAs in public sector banks. *Journal of Banking Technology*, 10(3), 112-129.

➢ Kumar, S., & Singh, A. (2020). Regulatory frameworks and their impact on NPA mitigation in public sector banks. *Finance and Regulation Review*, 15(1), 74-91.

➢ Raina, K., & Bhatia, S. (2021). NPAs and investor confidence: Evidence from public sector banks. *Financial Markets Journal*, 28(3), 199-215.

➢ Joshi, P. (2018). Macroeconomic implications of NPAs on the financial system stability. *Journal of Economic Studies*, 33(4), 375-392.