International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

The NPA Pendulum: Economic Shocks, Policy Responses, and Asset Quality in Indian Banking (2015-2023)

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Abstract
The banking sector in India struggled with a significant accumulation of Non- Performing Assets after the North Atlantic Financial Crisis of 2008, in part because of heightened corporate borrowing and volatile market conditions.

The period stretching from 2015 to 2023 marks a critical phase where Indian authorities would implement major reforms to address this crisis. With reforms like the Asset Quality Review (AQR) and the Insolvency and Bankruptcy Code (IBC), policymakers would initially succeed as asset quality improved, but the COVID-19 pandemic disrupted this rate of progress.
This paper analyzes the implementation and effects of these policy responses within their economic context, analyzing how the interventions, coupled with economic shocks put the financial system's asset quality on a pendulum-like trajectory. Moreover, the study evaluates previous mistakes in financial management against the backdrop of the current financial system and suggests avenues for future research and policy improvements.

Keywords: Non-Performing Assets, NPA, Indian Banking, Economic Shocks, Policy Responses, Asset Quality Review, AQR, Insolvency And Bankruptcy Code, IBC, COVID-19 Pandemic, Regulatory Forbearance, Bank Profitability, Lending Capacity, Capital Adequacy, Industrial Loans, Infrastructure Loans, Bank Recapitalization, Bank Mergers, Loan Moratoriums, Restructuring Schemes, NARCL, IDRCL, Bad Bank, Defaulted Loans, PCA, Monetary Policy, Fiscal Policy, Commodity Prices, Corruption, Bank Board Bureau.

Introduction

Banking System & Non-Performing Assets

Commercial banks play a key role in the overall development of the Indian economy. Banks are responsible for the mobilization of savings by Indian households, allocation of capital to industry and more; hence the health of commercial banks is important to economic development. Sustained impairment on bank balance sheets creates a drag on economic activity. Scheduled Commercial Banks (SCBs) can be primarily categorized into 3 categories based on ownership-

- Public Sector Banks (PSBs)- A bank where majority stake is under the ownership of the central bank or government.

- Private Sector Banks (PBs)- A bank where the majority share is owned by private investors.
- Foreign Banks (FBs)- A bank whose headquarters lie abroad that has branches in India.

Between 1969 and 1980, the 20 largest private commercial banks in India were brought under the public sector. However, following economic difficulties in the 1980s, the Committee *on* Financial Sector Reform, also known as the First Narasimhan Committee, was appointed by Finance Minister Manmohan Singh in 1991 to evaluate the condition of the financial sector.

The first report highlighted significant issues affecting the banking sector: the Statutory Liquidity Ratio (SLR) and the Cash Reserve Ratio (CRR) were very high at 38.5% & 15% respectively, the asset classification system was outdated and did not match up to international standards, accounting practices varied, and many banks did not set aside reserves to cover potential losses (Narsimhan, 1991). All of this led to an environment where banks suffered financially with net margins (after provisions) being just 0.85% of working funds (Narsimhan, 1991). It also brought up the issue of banking regulations restricting entry of private & foreign banks into the market and suggested that the RBI should not hold ownership in banks and going forward no banks should be nationalized.

Through the recommendations of the Narasimhan Committee Report- I, 1991; the RBI introduced reforms which included the reduction of reserve requirements, the deregulation of interest rates, the introduction of prudential norms and introduction of Basel II norms of minimum capital requirements which strengthened banking supervision and allowed new Private Sector Banks (PBs) to exist.

The introduction of prudential norms by the RBI in FY1992-93 revealed that the position of NPAs in the Indian sector was extremely worrisome, as gross NPA ratios of Public Sector Banks (PSBs) were as high as 25% on March 31, 1994.

Classification of Non-Performing Assets

From April of 2004, an NPA was defined as an advance in which:

1. interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.
2. the account remains ‘out of order’ for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC).
3. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
4. interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes; and
5. any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

According to (RBI, 2014) the following aspects were added to the definition of an NPA

1. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
2. in respect of derivative transactions, the overdue receivables representing positive mark- to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Moving towards international accepted practice, the RBI adopted the "90 day overdue" standard which

put simply, dictated that most loans overdue for 90 days were to be classified as NPAs.
NPAs were then further divided into 3 categories-

- Sub- Standard Assets- Any asset that has remained an NPA for less than a year.
- Doubtful Assets- Any asset that has remained an NPA for more than a year.
- Loss Assets- An NPA where a loss has been identified but the amount for the same hasn't been written off completely.

When a bank faces potential losses from NPAs, it needs to ensure that these losses don't heavily impact on its overall financial stability. To manage this, the bank practices "provisioning." This involves setting aside a portion of its earnings during each accounting period to create a financial cushion. This cushion, or "provision," is specifically reserved to cover any losses that might arise from NPAs. By doing so, the bank can maintain a healthier balance sheet and continue its operations smoothly, even if some loans don't get repaid.

The assets were to be provisioned as follows-

Table 1: Provisioning Rates For Different NPA Categories

Category	**Provision Rate**
Standard	0.25% – 1%
Sub-standard	15%
Doubtful	25% - 100%
Loss	100%

Note- Data sourced from RBI Report on Progress in Indian Banking

A distinction between Net & Gross NPAs was also made. Upon subtraction of the provisioning amount from Gross NPAs, the amount of Net NPAs could be calculated. 'Gross NPAs as a percent of advances' are used for the sake of analysis to indicate how much of a bank's portfolio is "bad".

Literature Review

During the mid-1990s, India went through a phase of problems with NPAs in the banking sector leading to initial reforms and recovery mechanisms like Debt Recovery Tribunals and the SARFAESI Act (Das, 2021). However, the period from 2015 to 2023 saw a more severe crisis emerge (Sarita & Nandal, 2024). Rooted in factors including corporate over-leveraging, sectoral stress, and issues related to prior regulatory forbearance that had obscured the true extent of bad loans (International Monetary Fund & World Bank, 2017; Government of India, Ministry of Finance, 2024). Lax credit appraisal, poor due diligence, and governance issues, particularly in Public Sector Banks, were also significant contributors (Karunakar et al., 2008; Das & Dey, 2023; Mittal, 2025).
The biggest development in revealing the full scale of the problem was the Asset Quality Review (AQR) initiated by the RBI in 2015 (Mittal, 2025; Ruban & Murugesan, 2024; Sarita & Nandal, 2024). This period saw bankers reporting rising NPAs and tightening credit standards (FICCI-IBA, 2015; FICCI-IBA, 2016; FICCI-IBA, 2017).
These high level of NPAs severely impacted bank profitability, necessitating provisions, reducing

lending capacity, and straining capital adequacy (Ruban & Murugesan, 2024; Mittal, 2025). PSBs were the worst affected, consistently showing higher NPA ratios than their private and foreign counterparts (International Monetary Fund & World Bank, 2017; Das & Dey, 2023; Ruban & Murugesan, 2024; Sarita & Nandal, 2024; Das, 2021). This disparity has been linked to PSBs' greater exposure to large industrial and infrastructure loans, which experienced significant defaults (Das, 2021). Management inefficiency, measured by the cost-income ratio, was also found to be positively correlated with NPAs, particularly for PSBs (Mittal, 2025).

In response to these problems, the Indian government started major policy interventions from 2015 onwards, including the introduction of the Insolvency and Bankruptcy Code (IBC) in 2016 to streamline debt resolution (Ruban & Murugesan, 2024; Mittal, 2025; Government of India, Ministry of Finance, 2024). Bank recapitalization and mergers were also implemented to strengthen stressed PSBs and improve their governance and efficiency (Ruban & Murugesan, 2024; Mittal, 2025; Government of India, Ministry of Finance, 2024).

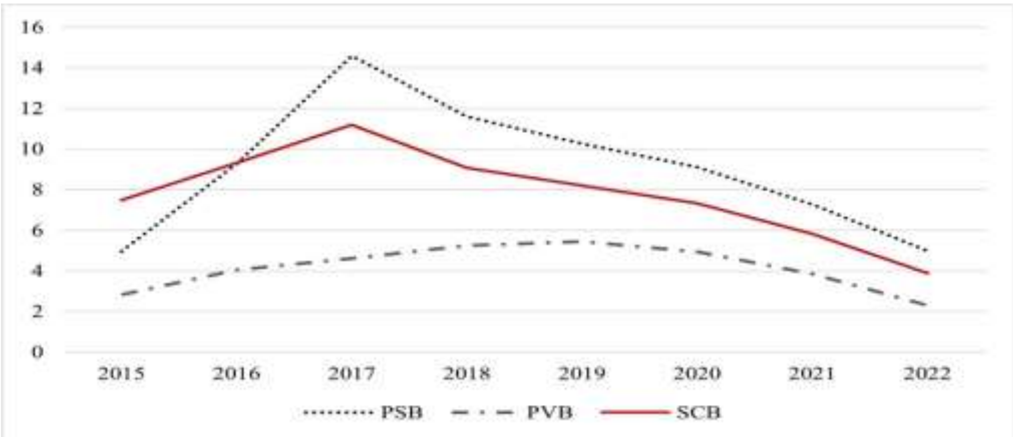
The pandemic in 2020 introduced a new economic shock, disrupting the promising downward trend in NPAs. The pandemic posed a significant economic shock, impacting borrowers' repayment capacity (Mittal, 2025).

Despite the pandemic's impact, the period post-2018/2019 has seen a significant decline in NPA levels from the peak (Ruban & Murugesan, 2024; Sarita & Nandal, 2024). This recovery is attributed to the combined effects of reforms (IBC, recapitalization), concerted recovery efforts, write-offs, improved credit practices, and economic rebound (Ruban & Murugesan, 2024; Sarita & Nandal, 2024; Government of India, Ministry of Finance, 2024). The declining NPAs are correlated with improvements in bank profitability, indicating a restoration of financial health (Ruban & Murugesan, 2024).

Aim Of the Study

This study examines the dynamic situation of Non-Performing Assets (NPAs) in the Indian banking sector between 2015 and 2023, conceptualizing the situation as a pendulum of oscillating asset quality. By investigating the interplay of two key forces: firstly, the impact of economic shocks (global & domestic) which exerted pressure on borrowers; and secondly, the impact of government policy designed to mitigate NPA levels. Analyzing these factors provides an informed perspective on the sector's resilience and future policy directions.

Figure 1 – Gross NPAs as % of Gross Advances From 2015 Through 2022



Note – Data sourced from RBI Master Database

Analysis

Broad Overview

The period spanning 2015 to 2023 witnessed *significant fluctuations* in Non-Performing Assets within the banking sector. A major defining characteristic of this era was an initial increase in the recognition of existing asset quality problems through Asset Quality Reviews (AQRs), that would set the stage for complex policy responses that influenced the subsequent NPA trajectory. This effect primarily affected public sector banks, though private sector banks were *also impacted* to a lesser extent. Beginning with the AQR, the government began the removal of regulatory forbearance with the last forbearance measures being removed in 2018.

The sudden rise in NPAs up till 2018 was also partly due to an economic slowdown, high corporate leverage and sectoral weakness in some industries (steel, infrastructure, power). These industries struggled due to a fall in global commodity prices and challenges in domestic demand.

Beginning from 2018, the banking sector would enter its recovery phase (see Table 2) with Gross NPA levels at Scheduled Commercial Banks (SCBs) dropping by 2 percentage points to 9% between 2018 and 2019. The Indian Bankruptcy Court (IBC), introduced in 2016, yielded results by streamlining the resolution of large corporate NPAs. At the same time, the government recapitalized PSBs and *consolidated* weaker public banks with stronger *ones*, leading to an overall positive effect on asset quality (Singh & Roy, 2024).

Improved asset quality and strengthened balance sheets signaled a turning point, however the onset of the COVID-19 pandemic in 2020 reversed the gains of improved asset quality as the economy stalled. In response, the RBI would introduce measures such as loan moratoriums, restructuring schemes and a temporary suspension of IBC proceedings in hopes of cushioning borrowers while preventing an immediate spike in NPAs.

On a broader economic scale, the Indian economy showed resilience in overcoming challenges posed by the COVID-19 pandemic, with a rebound observed in 2021 due to effective government and monetary policy measures (Subburayan, 2023). This resilience was crucial for the banking sector as it navigated through the black swan event. By 2023, the NPA situation appeared to stabilize, however internal macro tests of the RBI revealed that NPAs could have risen from the September 2021 level of 6.9% to 8.1% by 2022 (RBI, 2021). Whilst this scenario did not play out, given the level of regulatory forbearance during the start of the pandemic, only an AQR type exercise would reveal the real health of the banking system.

Asset Quality Review & Regulatory Forbearance

The problems present through 2015 with NPAs can be traced back to the period of the North American Financial Crisis (NAFC). Before the financial crisis during the economic boom of the 2003 – 2007 period, as India rode the back of good global macroeconomic conditions, the infrastructure sector boomed, *resulting in high* credit requirements.

Before the 2000s, the infrastructure projects were financed by Developmental Finance Corporations (DFIs) but following the macroeconomic and financial reforms of the 1990s, they were no longer viable. This put banks in charge of not only financing the working capital needs of industrial/commercial projects but also the long-term infrastructure and industrial projects themselves.

Unlike DFIs, which financed projects using long term bonds, banks had to fund project using short-term sources – deposits from the public. To make matters worse, banks (particularly PSBs) were financing major private entrants of capital-intensive sectors such as aviation, telecommunications etc. *while* banks had no expertise in assessing these businesses. Rajan (2018) notes this irrational exuberance from banks, stating that banks extrapolated past performance for projects like power plants into the future and took on highly leveraged projects, even going as far as not conducting due diligence and instead relying on project reports from the promoter's investment bank.

To protect the stability of the economy and banking sector following the NAFC, governments around the world released stimulus packages. It was as a component of the stimulus package that regulatory forbearance was introduced. The RBI, in 2008, would introduce the 'Special Regulatory Treatment' for restructuring debt, wherein after the restructuring process, lending institutions would not have to downgrade asset quality. Even before the NAFC, the union budget from 2008 introduced: "a scheme of agricultural debt waiver and debt relief for farmers with the total value of overdue loans to be waived then estimated at Rs. 50,000 crore and a one-time settlement (OTS) relief on the overdue loans estimated at Rs.10,000 crore" (RBI, 2008). Even more changes were introduced to the prudential norms to ease the situation.

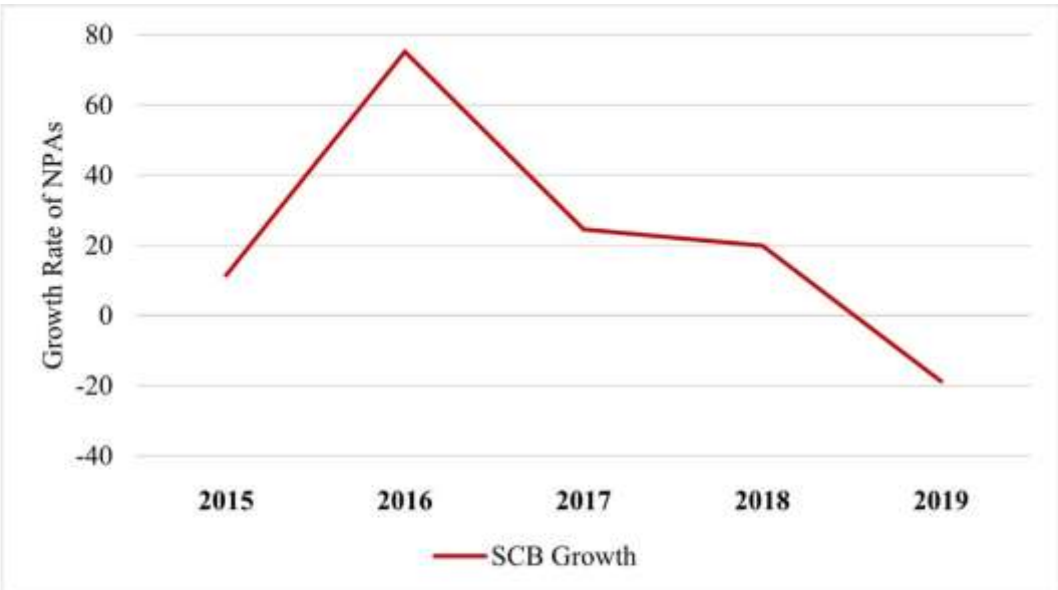
Whilst some measures of regulatory forbearance would only last until 2009, all forbearance and restructuring schemes would not be completely withdrawn until 2018, in turn masking the NPA problem in the early 2010s.

It wasn't until 2015, with the Asset Quality Review (AQR) that banks would be forced to confront reality by recognizing their NPAs and provisioning them accordingly. This review revealed that NPAs were particularly high in the priority sector post-liberalization, with a significant portion of NPA account holders being industrialists (Rafi, 2021).

The AQR revealed that not only PSBs but also PVBs were masking their NPAs ever since the NAFC and would cause NPAs to increase substantially across both the public and private sector banks.

Ultimately, the AQR helped bring accountability to the banking sector and did positively contribute to the actual recovery of the banking sector.

Figure 2: NPA Growth Rate In SCBs Between 2015 & 2019



Note – Data sourced from the RBI Master Database.

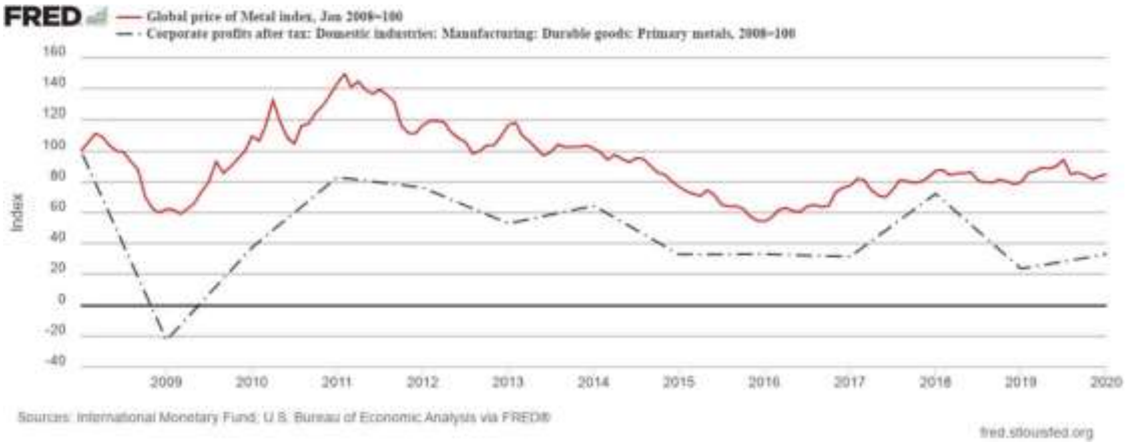
Fall In Commodity Prices

According to PWC (2018), the banking sector in India deploys the largest amount of credit to the following sectors – infrastructure, basic metals, and textiles (no database analyzing lending trends over time exists). Therefore, the health of these industries directly influences the level of NPAs for lenders.

Following the NAFC, there was a significant decline in the price of commodities. Particularly, in the case of steel, the PPI for US steel producers fell by ~50% between 2008 and 2009.

Singal (2008) discusses the impact of falling steel prices and overproduction in China causing the top 6 steel producers in India to expand operations through high levels of debt and low profitability ratios. Similarly, it can be seen from figure 3 that the profitability of primary metal manufacturers is correlated with the price of the commodities themselves.

Figure 3: Global Metal Prices Vs Metal Industry Profitability



This is quite important since the drawdown in metal prices until 2016 would lower profitability for manufacturers in the industry which in turn would increase defaults for borrowers.

Issues With Corruption

When talking about the issue of NPAs, there are several high-profile examples of business tycoons who defaulted on their loans and fled abroad. During a Lok Sabha session in 2018, the Minister of State for External Affairs named 41 individuals facing criminal investigation for financial irregularities who had fled abroad (Ministry of External Affairs, 2018).

The impact of governance and bad management is very influential to NPA levels in banks. Tao et al. (2023) established a causal effect of corruption on NPAs, showing that China's anti-corruption movement significantly reduced NPAs (especially in state owned banks). Similarly, an empirical analysis using global data from 140 countries underscores a strong, statistically significant correlation between corruption and NPAs, with the relationship being pronounced in smaller countries (Zahoor, 2022).

The Central Vigilance Commission (CVC) Annual Report 2012 noted, "While examining vigilance cases in the Commission, it was observed that many takeover loans by Banks from other Banks are becoming non-performing assets (NPAs) within a short span (quick mortality cases) and a lot of lapses are observed on the part of the Bank staff resulting in huge loss to the Banks".

Based on previous reports, there were major loopholes in the system that led to corrupt practices. First, there was a lack of due diligence by banking officials. Second, there was often a diversion of funds at a large scale by the promoters of the company to not only personal accounts but also shell companies.

Third, there are examples of fraud at the company level. And lastly, there is the problem of fabrication of information.

Corruption is also more prevalent in PSBs because the central government is not only the sovereign, but also the investor, owner and sometimes indirectly involved with the borrowers as well. This relationship between politicians, industrialists and bankers is key to facilitation of corruption.

Efforts like the Indradhanush initiative, including the creation of the Bank Board Bureau have been crucial in enhancing governance by improving accountability and leadership quality in PSBs, which are disproportionately affected by NPAs due to liberal credit policies and weak regulatory practices (Brahmaiah, 2019). However, their effectiveness can be enhanced through further integration with the Finance Ministry.

Improvements In NPA Ratios Since 2017

Between 2017 and 2019, the situation with NPAs *began* to improve before the disruption caused by the pandemic. There were 3 primary reasons for this positive change.

Increased Recovery from Defaulted Loans

The Nobel laureate Joseph Stiglitz characterizes the rapid resolution and recovery of defaulted loans as an important component of capitalism (WSJ, 2009). The Indian Bankruptcy Court system was introduced in 2016 as an important step towards achieving this goal. The system requires the Corporate Insolvency Resolution Process (CIRP) to be concluded within 180 days (with a 90-day extension option), and it can be seen in Table 2 that the implementation of the IBC reduced the time to resolve insolvencies from 4.3 years in 2014 to just 1.4 in 2019, almost 1 year less than the world average.

Table 2: Average Time To Resolve Insolvencies In Various Countries (years)

Country Name	2014	2019
United States	1	1
India	4.3	1.6
Singapore	0.8	0.8
World	2.51	2.46

Note – Data sourced from the World Bank

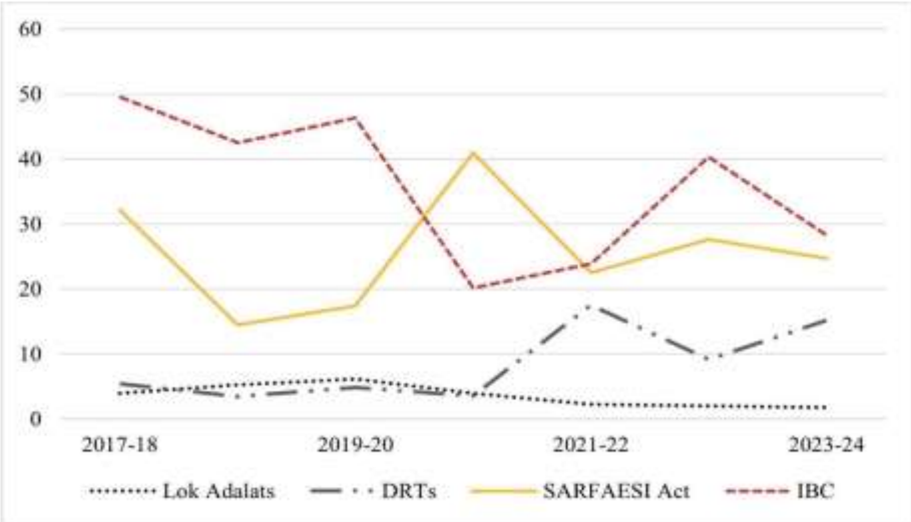
Under the IBC system, creditors assume control of the company as soon as the CIRP is initiated and promoters are kicked out (Divan, 2020). The IBC was a derivative of multiple policy proposals that came before it, such as the National Company Law Tribunal, the SARFAESI Act of 2002 and RBI's asset restructuring proposals, including the Sick Industry Companies Act, debt recovery tribunals, and others which address the need to reduce NPAs in the PSBs in India (Das et al., 2020). Recovery channels other than the IBC have also played an important role since then in the NPA recovery process as can be seen in Table 3. However, the effectiveness of IBC unquestionably exceeds the SARFAESI Act and all others, as can be seen from Figure 4 showcasing the percentage of recovered NPAs through each recovery channel since 2017-18.

Table 3: Amount of NPAs Recovered Through Different Channels

Recovery Channel	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 (P)
Lok Adalats	1,811	2,816	4,211	1,119	2,778	3,831	3,322
DRTs	7,235	10,574	9,986	8,113	12,035	36,924	16,202
SARFAESI Act	26,380	41,876	34,283	27,686	27,349	30,864	30,460
IBC	4,926	70,819	1,04,117	27,311	47,409	53,968	46,340
Total	40,352	1,26,085	1,52,597	64,228	89,571	1,25,587	96,325

Note – Amount in Cr; Data sourced from RBI State of Banking reports

Figure 4: Amount of NPAs Recovered As % Of Amount Involved In Proceedings



Note – Data sourced from RBI State of Banking report

Changes In Operation of SCBs

Secondly, following the AQR in 2015, banks began to practice better credit discipline. Banks began assuming accountability after the AQR revealed the real position of the stressed assets. The AQR also affected the profitability of the banks after the initiation, with bank stocks dropping during the 2015-16 period due to fears of losses thanks to the exercise.

Following the AQR, the RBI released a revised framework for Prompt Corrective Actions (PCA) in April 2017 covering 11 PSBs. The framework restricted these banks in their operations and subjected to a remedial action plan to prevent further capital erosion. Multiple such measures were implemented to bring a reality check to the banking system and played a significant role in the reduction of NPA levels.

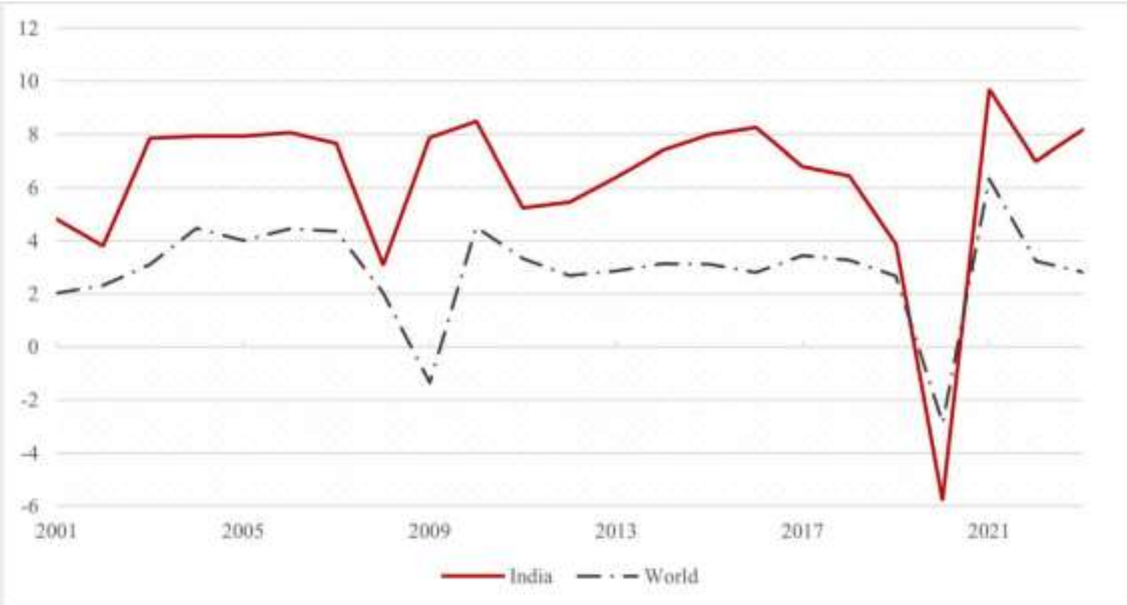
Lastly, the government merged with multiple PSBs after 2017 which positively contributed to the NPA levels by allowing improvements in provisions and in turn containing the net NPA ratios of the merged banks. At the start of 2017, India had 27 PSBs, today that number has come down to 12.

Whilst not directly related to banking sector developments, the Indian government also developed restructuring packages for several key industries during this period (targeting power & infrastructure sectors) which helped alleviate stress levels within their business operations. The capital infusion by the Indian government into PSBs provided some respite to recipients, but according to Moody's (2016) the capital infusion's budget was far below at Rs 45,000 Cr than the Rs 1.2 Lakh Cr capital required to shore up the PSB's balance sheets.

The Pandemic

The promising downtrend of NPAs across the entire banking sector faced a significant hurdle in 2020 *when* global lockdowns began in March. The pandemic led to economic contraction, with the Indian GDP falling by 6% in a single year, a decline not seen in decades. The problems existed not just in India but also worldwide as can be seen from Figure 5 tracking the world average GDP growth alongside India's GDP growth, this *severely impacted* borrower repayment capacity. The Reserve Bank of India's (RBI) Financial Stability Report in July 2020 projected that under a severe stress scenario, the gross NPA ratio for Scheduled Commercial Banks (SCBs) could reach 14.7% by March 2021. However, RBI's immediate action plan prevented a major *crisis for* the banking system.

Figure 5: World GDP Growth Vs India GDP Growth



Note – Data sourced from the IMF

Like the post NAFC period, the central pillar of RBI's response was to introduce regulatory forbearance to counter the effects of the pandemic, however this time around it was much more targeted. This "Forbearance 2.0" as it could be termed, involved measures such as loan moratoriums, allowing borrowers temporary pauses in repayment, and specific restructuring schemes designed to provide relief to viable but stressed businesses and individuals impacted by the pandemic. Alongside, the government would introduce large credit guarantee schemes designed to incentivize banks to continue lending particularly to vulnerable sectors like MSMEs, by mitigating risk for lenders through government guarantees.

Emergency measures were crucial in preventing immediate financial collapse by providing breathing room for banks, but this also adds a new layer of complexity in accurately assessing the post pandemic NPA situation by hiding the true extent of asset quality deterioration.

The IBC too faced a series of changes during the pandemic to help businesses and banks during the pandemic era. First, the government increased the default threshold from Rs. 1 Lakh to Rs. 1 Cr *for cases* invoking the IBC. Second, COVID-19 related debts were exempted from the IBC. Third, the IBC was suspended for a period of 1 year from May 17, 2020 (Live Law, 2020).

Furthermore, the operationalization of the **National Asset Reconstruction Company Ltd. (NARCL) and India Debt Resolution Company Ltd. (IDRCL)**, the "Bad Bank" structure, during 2021 represented a significant development aimed at managing NPAs, however its long-term implications and effectiveness remain to be assessed.

In conclusion, the period during and after the pandemic presented a very tough challenge for the banking system given the scale of economic disruption, however the RBI and government's initiatives during the time period allowed banks to manage NPAs effectively, with Gross NPAs consistently following ever since the pandemic to the 2% range today, even avoiding the RBI's own predicted scenarios. While the immediate crisis was averted, the long- term implications of the RBI's moves remain to be seen.

Conclusion

Key Findings

The study highlights multiple important elements in the NPA landscape during the review period between 2015 and 2023:

- **Asset Quality Review (AQR):** The AQR exercise enforced the recognition of previously concealed NPAs. Whilst it did have a detrimental impact on bank profitability during the years of 2015-16, it laid the groundwork for a more transparent and accountable approach by the banks.
- **Indian Bankruptcy Code (IBC):** Perhaps the most important initiative undertaken by the government during the review period was the IBC, which was transformative for banks as it shortened the recovery process drastically, making it comparable to international standards. Its effectiveness exceeded previous regulatory measures for recovery and allowed multiple large NPA accounts to be closed for good. This was key in controlling the level of NPAs during the 2017-19 phase.
- **COVID-19 Impact and Response:** The pandemic posed a serious challenge for the entire financial sector as the black swan event of the century. The significant economic disruption and its impact on cash flow for businesses as well as individuals posed a grave risk to the downward NPA trajectory before 2020. However, thanks to quick actions on the part of the government in form of stimulus measures, regulatory forbearance and temporary reforms in regulation, the NPA ratios were stabilized temporarily and have continued their downtrend since. Still, the long-term effects remain to be seen.

Future Research Avenues

Several promising research directions warrant further investigation. The most important avenue is to analyze the efficacy of measures introduced during the pandemic *such as the* National Asset Restructuring Company Ltd. (NARCL) and to assess whether latent stresses in the banking system might re-emerge as pandemic era relief measures are phased out. Also, researchers can look at cross country comparisons between India and other countries to guide future policy making.

Final Reflections

This research paper has tried to shed some light on the complex yet important topic of Non- Performing Assets (NPAs) in the Indian banking sector. This constant pendulum like movement between levels of NPAs across the entirety of the last 30 years is representative of external economic shocks and internal policy responses (both good and bad) that keep the situation in a constant state of flux. The analysis reveals how transparency, accountability, and adaptability have been essential in truly managing NPAs, especially amidst significant disruptions. Given the importance of NPAs on the financial strength of banks and their subsequent importance on the health of the overall economy, this is an area that needs to be heavily scrutinized by regulators.

The RBI needs to learn from its historical mistakes to ensure they're not repeated, *especially regarding* excessive regulatory forbearance *like that seen after* the NAFC, and the *delayed* Asset Quality Review (AQR) in 2015. A similar situation is occurring today with the real quality of bank balance sheets hidden due to the regulatory forbearance of the pandemic and an exercise like the AQR needs to be taken to ensure that the situation doesn't deteriorate with time.

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