TRANSFORMING INDIA 2030

Edited by : Dr. Dev Karan

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A Roadmap for Sustainable Development Goals

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ISBN 978-81-921245-0-6
Rs. 400/-

Natural Growth Books
JODHPUR

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A Roadmap for Sustainable Development Goals

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Publication :

USHA PUBLICATION HOUSE
JODHPUR

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Year of Publication - 2019

ISBN - 198-81-921245-0-6

Publisher :
NATURAL GROWTH BOOKS
Jodhpur (Rajasthan)

Published in India

Published by Natural Growth Books, Jodhpur. Desigend & Printed by Vijayant Vyas, Computer Craft, Johpur. Mobile 9314342165

PREFACE

Poverty in simple words is understood as lack of income or resources and it includes social discrimination and exclusion, lack of basic services and lack of participation in decision making. After serious efforts by Governments to eradicate poverty and to reduce inequality over a long period of time still the human needs of many people are not met till today. Sustainable development is new phenomenon which means to meet the requirements of people and their overall growth. India achieved good economic growth in last few decades but this growth is only confined to a small proportion of the population and still large section of population is lacking even basic needs of living. In India, it is observed that the economic growth is not equally distributed amongst the population which also leads to unequal development of people.

United Nations along with other international organizations put their efforts to eradicate poverty and providing basic needs of life to all. For overall sustainable development of whole world, United Nations Development Programme (UNDP) has set 17 goals to achieve "2030 Agenda". The Sustainable Development Goals (SDGs) were agreed upon at the Rio + 20 Summit (United Nations Conference on Sustainable Development) in 2012 with a view of addressing the future development of mankind. The SDGs are expected to adopt an approach that integrates the social, economic, and environmental dimensions and concerns which form the very foundation of sustainable development.

In a diverse country like India, it becomes necessary to first review the policies and systems that are in place for overall sustainable development and then frame the policy. While targeting economic growth, infrastructure development and industrialisation, the country's war against poverty has become fundamentally focused on social inclusion and empowerment of the poor. The slogan "Sabka Saath Sabka Vikas," which translates as "Collective Effort, Inclusive Growth" and has been popularized by Prime Minister Narendra Modi, forms the cornerstone of India's national development agenda.

India continues to pursue the implementation of the SDG agenda through close collaboration between the national and subnational governments as well as active participation of all other relevant stakeholders. The SDG implementation process has started yielding valuable insights. Out of 17 SDG setup by UNDP, in India some goals like no-poverty, quality education, economic growth, gender equality, sanitation, environmental protection etc. are some such areas which need more attention on priority basis for overall sustainable development.

The SDGs cannot build up benefits to these communities if we adopt a conventional headcount approach to poverty. Thus, the outcome of the seminar will be helpful for society as various key issues for sustainable development will be thoroughly discussed and new ideas and thoughts will come out by thorough discussion that will be helpful for policy making and implication and which in turn will certainly benefit the society.

The aim of this edited book is to explore priority areas for sustainable development and provokes an idea for economists and policy makers to identify key areas that need to be addressed urgently. The outcome ideas will be very useful for policy makers to understand the priority goals to be focused for sustainable development in India by 2030.

Dr. Dev Karan

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NPAs in Banks Affecting the Development of India

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Well-functioning banks spur technological innovations by identifying and funding those entrepreneurs with the best chance of successfully implementing innovative products and production processes.

- Schumpeter (1912)

1. Introduction

Financial sector plays a major role in the development of an economy. Banks and other financial institutions facilitate the growth by promoting capital formation through credit creation. Hamilton (1781) stated that banks are the happiest engines that are ever invented to spur economic growth. The sound health and good performance of the banking system is a major pre-requisite for the overall economic development of a country. Banks are exposed to various risks which are impediments to their good financial health such as credit risk, liquidity risk, operational and market risk. However credit risk is most detrimental among all. The credit risk can be explained as the risk of erosion in asset value due to the default of interest and principal of dues by borrowers. This risk can be epitomized by Non-performing Assets (NPAs) of banks. They are the prudential indicator of the financial health of the banks. NPA affects the operational efficiency and profitability of banks and determines their solvency status. High level of NPA affects the credit growth in a country and thus its economic growth also. During past few decades, many banks both in developed, emerging and developing economies faced difficult situation due to high NPA. Some banks have failed and in the process of liquidation due to NPA worldwide.

To curb NPA banks should have an efficient credit appraisal and loan recovery system.

Effective credit risk management allows a bank to reduce risks and potential NPAs. Therefore, the bank must have an explicit credit risk strategy and support by organizational changes, risk management technique and fresh credit process and systems.

In India the NPA problem has become more prominent in last five years. Its increasing level has created the alarming situation in India. Reserve Bank and the Government of India have adopted many measures to restrain it. How to curtail NPA has become the hottest issue in India after the loan default done by a liquor king and a diamond merchant of rupees 9,000 and 11,400 crore respectively.

2. Non Performing Assets (NPAs): Meaning and Concept :

In RBI glossary NPA is defined as an asset, including a leased asset, which becomes non performing when it ceases to generate income for the bank. A non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a specific period of time. It has been decided to adopt the '90 days' overdue' norm for identification of NPA, from the year ending March 31, 2004 to cope with the international best practices. In case of advances granted for agricultural purposes if interest and instalment of principal remains overdue for two harvest season but for a period not exceeding two half years then this advance becomes non-performing asset. Similarly non submission of Stock Statements for three continuous quarters in case of Cash Credit Facility make it non-performing asset. No active transactions in the account (Cash Credit/Over Draft/EPC/PCFC) for more than 91days is also counts as NPA.

The meaning of NPA can be explained by a simple example. Suppose a bank has deposits of rupees 500 crore for which it has to pay the interest of rupees 40 crore (at the rate of 8 per cent per annum) at the end of the year. Out of this money, after keeping 100 crore rupees for statutory requirements, it lends rupees 400 crore to twenty borrowers (20 crore each) at 12 percent per annum interest rate to earn interest of rupees 48 crore annually. If four borrowers stop paying interest and do not want to pay the principal amount also after the loan period than loss of the bank will be 80 crore rupees principal amount plus 9.6 crore rupee interest. Thus against the amount of 540 crore rupees of depositors, bank will have only 358.4 crore rupees besides the statutory amount. The remaining amount of 89.6 crore rupees becomes NPA and it is loss for the bank. This example tries to explain how NPA generates in the bank in a simple way excluding the technicalities of interest and instalment payments.

NPA is further classified as sub-standard assets, doubtful assets and loss assets by banks. Sub-standard assets are assets which has remained NPA for a period less than or equal to 12 months. For sub-standard asset banks have to maintain 15 per cent of its reserves. An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. Its collection or liquidation is highly questionable and improbable.

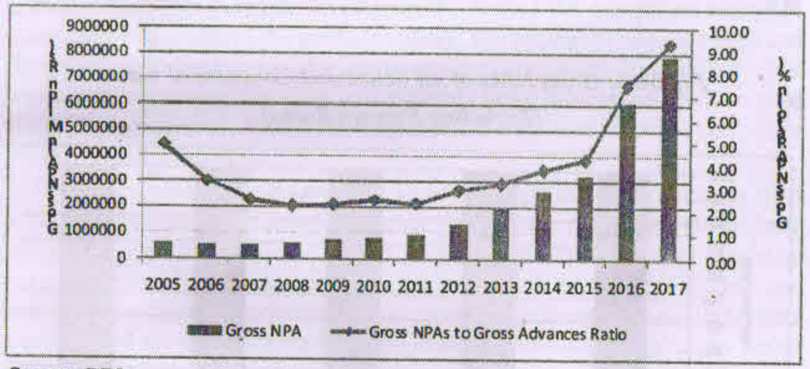
A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the total amount has not been written off. Thus all those assets which cannot be recovered are called as loss assets.

There is one more classification of NPA – Gross Non-Performing Assets (GNPAs) and Net Non-Performing Assets (NNPAs). Gross NPA is the sum of all loan assets that are classified as NPA and gross NPA ratio is the ratio of gross NPA to gross advances (loans) of the bank. Net NPAs are calculated by deducting provisions from gross NPAs.

3. Trends in NPAs in India

The gross NPAs in India in 2008 was 5.66 lakh million rupees which reached to 9.40 lakh million rupees in 2011 and in 2017 it was 79.03 lakh rupees. The figure 1 shows that after the year 2007-08 gross NPAs are consistently increasing and the pace of increase was even higher after 2011. From 2011 to 2012 the increase in value of gross NPA was 45.71 per cent and in 2016 it was increased by 89.40 per cent as compared to 2015. The growth rate of grosss NPA from 2005 to 2010 was 8 per cent only but 2011 to 2117 it was 35.3 per cent. The mounting NPA at higher pace is actually the matter of concern in India.

Figure 1: Gross NPA and Gross NPA Ratio of Scheduled Commercial Banks

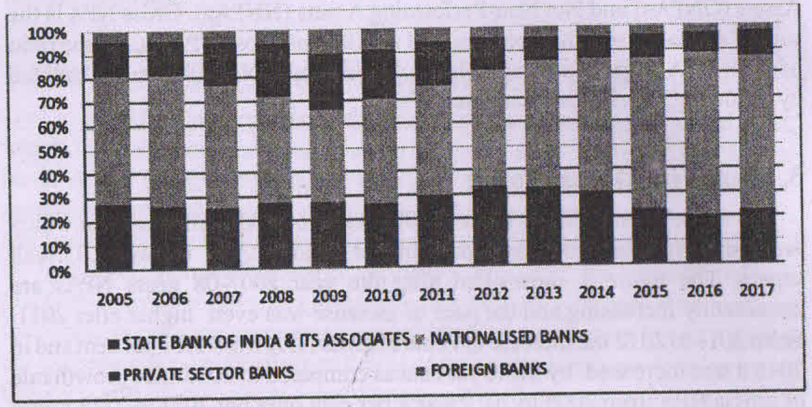


Source: RBI

The ratio of gross NPAs (=Gross NPAs/Gross Advances) firstly declined during 2005 to 2008 then for three years it remains constant somehow and it started increasing again since 2011. A rapid increase in ratio was observed after 2014. It was only 3.83 in 2014 but reached to 7.48 in 2016 and 9.32 in 2017 (Figure 1).

Figure 2 explains that in gross NPAs share of Public Sector Banks (SBI and Nationalised Banks) is much higher than Private Sector Banks and Foreign Bnks. In 2005 it was 80 per cent approximately which declined to 66 per cent till 2009 but after that it is continuously increasing. In 2017 the ratio of

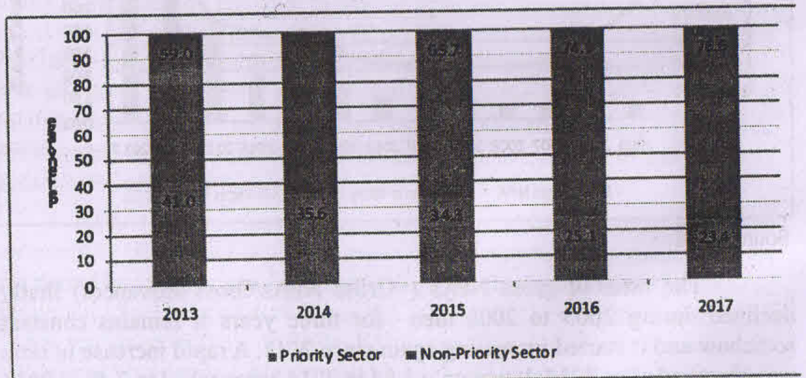
Figure 2: Share of Banks in Gross NPAs in India



Source: RBI

public sector banks in Gross NPAs of all scheduled commercial banks was more than 86 per cent. So majority of NPAs are generated by Public Sector Banks (PSBs) whereas Private and Foreign banks have a very less proportion in it.

Figure 3: Gross NPAs of All Scheduled Commercial Banks (Excluding Foreign Banks)



Source: RBI

If it is analysed that which kind of lending is creating more NPAs then the non-priority sector is found to be the larger contributor in India. In 2013 the non-priority sector had 59 percent share in gross NPAs which increased to 76.6 per cent in 2017.

According to Financial Stability Report issued in June 2018, RBI estimated that the gross NPA of all banks which was 11.6 per cent in March 2018 may rise up to 12.2 per cent till March 2019. It declared that gross NPAs of PSBs was 15.6 per cent in March 2018. The gross NPA has increased by 10 lakh crore rupees after the new guidelines were issued by RBI in February 2018. All the banks are acquiring losses due to the high provisioning for NPAs.

4. Reasons for Rising NPAs in India

Delivering a speech at ASSOCHAM of India in 2016, Dr. Raghuram Rajan, the former Governor of RBI, explained that irrational exuberance in making loans and deficiencies in evaluation are among the factors that have resulted in Indian banks making bad loan. A number of these loans were made in 2007-2008.

The reasons for rising NPAs in India can be classified in three categories- (1) Bank level inefficiencies (2) Borrower level factors (3) Economy wide reasons.

4.1 Bank level inefficiencies

i. Banks' wrong projections about growth : Before the sub-prime mortgage crisis there was boom in the world economy. The optimism was very high and the growth so banks creates large amount of credit without checking for credit worthiness expecting that they will generate large income and will be paid soon. The recession in 2008-09 had presented the adverse situation and in few years loans became NPAs.

ii. Deficiencies in careful evaluation : The other big reason for increasing NPA was negligence and insufficient diligence of banks in evaluating the projects before lending. The cost of the project, its profitability and viability should be properly scanned but in expectation of high growth it was neglected and loans were issued without any discrimination. Sometimes in case of collateral loans banks relied on other for background checking and that also led to credit defaults.

iii. Inefficient recovery system : If a loan ceases paying interest, banks should have efficient recovery system to recollect it. As explained earlier more than 85 per cent of the gross NPAs belong to PSBs. One of the prominent reasons of it is that they do not have efficient recovery system as private sector banks.

iv. Over lending and ever greening the unviable projects through restructuring
If a loan becomes bad loan, banks try to modify it to make it payable through restructuring or issuing more loans. The measures which banks usually adopt in restructuring are – reduction in interest rate, interest payment only, increase the period of repayment and decrease the instalment amount etc. This restructuring definitely helps those borrowers who have the intention to pay and have viable projects. But for wilful defaulters and unviable projects this

process is in vein and increases the burden of the banks

v. Insecurity and short tenure of managers or chiefs of banks : The short tenure of managers or chiefs of the bank make them unwilling to recognise losses and they postpone it to future for their successors to deal with. At the same they do not take interest in funding NPA which could be make viable since they do not want to be answerable before the auditors. Due to the insecurity they do excessive lending to bad projects and less funding to viable projects.

4.2 Borrower Level Factors

i. Corruption, fraud and wilful default : Malfeasance is another reason for increasing NPAs in India. According to Company Law in India an entrepreneur or promoter of a company and company are two separate entities. So for the default of companies loan bank can seize the property of a company but not of the promoter. This incentivises promoters for credit default because they know that bank do not have any claim on their property.

ii. Delay in projects : One of the reasons for increasing NPA is non viability of the projects due to delays in procuring permissions from various government bodies, clearances and land acquisition. Though projects were delayed due to clearance process yet the companies have to service the interest on loans taken from banks. The interest costs shoot up drastically and it further erode profitability. Low cash flows lead to more delays and the vicious cycle goes on.

4.3 Economy Wide Reasons

i. Fault at regulator level : If NPAs of banks are increasing, the RBI is also responsible for it because it has at fault in fulfilling its duty to warn banks time to time for poor lending and asking for maintaining risk buffers. If it had fulfilled its duty of regulator cautiously NPAs would have not been increased at this alarming rate.

ii. Cyclical Conditions- Recession of 2008 : Due to the global slowdown of 2008 earnings were slowed, customers had delayed their payables, profits were being squeezed, exports (dollar value) were on a decline due to weak global demand so the borrowers did not have money to pay back so NPA increased.

iii. Priority sector lending : The major responsibility of priority sector lending in India is of PSBs. The poor conditions of agricultural farmers, low productivity of agriculture and low prices for a long time make loans in this sector to turn into NPAs. The loan waivers of farmers for declared since 2012 is also one of the major reason behind the large increase in NPAs..

iv. Lending by PSBs to heavy industries : The private sector banks do not give loans to big projects like infrastructure development and heavy industries which have long gestation period and have high uncertainty. They are funded by PSBs under political pressure even if these projects do not seem much viable as others. This increases the NPAs of PSBs. All this reasons have worked behind the mounting NPA in India.

5. Measures to be adopted to Curb NPA in India

5.1 Short Term measures

i. The confidence of the bankers should be boosted up to take right decisions : The increasing NPA is also due to the inability of bankers to make appropriate decisions. They are scared of writing off loans for fear that there will be an investigation later. It is required not to label a banker based on the outcome of a single loan but a pattern across loans should be looked. A banker who makes an excessive number of bad loans compared to his cohort deserves to be questioned only if there is strong evidences.

ii. Restructuring of viable projects only : The loans of those projects should be restructured which are viable so that the promoters do not get disappointed as well as loans can be made payable. But the option of restructuring should be adopted by the banks only if they have the sure proofs of the viability of the projects.

iii. Efficient follow up of Insolvency and Bankruptcy Code (IBC) : The provisions of IBC should be followed properly and efficiently to speed up the process of NPA recovery.

iv. Labelling of wilful defaulter : The defaulter who has willingly not paid the interest or instalments of the loans should be declared wilful defaulters by the banks. Such treatment may have a large impact on recovery of NPAs. Along with this high penalties should be charged for fraudsters and quick investigation should be done against them to spread the message that no one can get away and the alternatives to repayment can be harsh.

v. Proper regulating by RBI and its strengthening is required : The regulator can warn banks about poor lending practices when they are being undertaken, and demand banks hold adequate risk buffers. The important duty of the regulator is to force timely recognition of NPAs and their disclosure when they happen. To fulfil its duties RBI should be given more powers and it should be made more strengthen for the assessments and punishment of bank defaults.

vi. Background checking of borrowers : Necessary pre and post lending background check should be done at each level. The small bank should not depend on lead bank for background checking of borrower if lending is done through consortium of Banks.

vii. NPA recovery from promoters assets and chance for one time settlement : The assets of the promoter along with the defaulting company's assets should also be made liable for the repayment of the NPA then only the wilful defaults and fraud can be prevented. The government and RBI may also come up with a one-time settlement scheme for top defaulters before initiating stringent steps against them.

5.2 Long term Measures

i. Recapitalising and revamping of PSBs : Governance of public sector banks should be improved through less interference of the government, efficient evaluation, warning and efficient recovery system. Recapitalisation of the PSBs should be done in order to achieve the goal of improving governance and increase profitability so that they can deal with NPAs in a better way.

ii. Develop a strong Credit Monitoring System : The banks need a well-established credit monitoring system. Since, lending forms a major segment of bank's transactions thus they need to properly evaluate the credit proposals they receive. Full information related to the company, industry, management etc. should be collected. A centralized model for sanctioning and recovery of loans should be setup. Staff with specialized skills in credit risk management must be hired.

iii. Formation of Asset Reconstruction Company or Bad Bank : "Bad Bank" to deal with the problem of non-performing loans, as suggested by the then Chief Economic Adviser Arvind Subramanian in the Economic Survey 2017-18, should be set up so that banks can transfer their NPAs to it and can recover the minimum amount possible.

6. Steps Taken by RBI and Government of India to Curb NPAs

NPA problem in India is not new. The Committee on Financial System headed by M. Narasimham also recommended about the reduction and provisioning for NPA in its report submitted to government in 1991. In response to it Government of India initiated many reforms in Banking sector to curb NPA, like – Capital adequacy norm for Commercial Banks (4 percent by March 1994 and 8 percent by March 1996), Disclosure of Asset Quality by classifying them in performing and non-performing assets and provisioning for NPA, Asset liability management and establishment of Debt Recovery Tribunals (DRT). After that banks started disclosing NPAs and classifying the assets into Standard, Sub-standard, Doubtful and Loss Assets and tries for their recovery. Due to these reforms the level of NPAs declined. In 2001-02 the gross NPAs ratio declined to 10.4 per cent from that of 15.6 percent in 1996-97 and net NPA also declined to 5.5 per cent from 8.1 per cent during this period. But the level of NPA was still very high. Some more initiatives were taken by RBI and Government of India to reduce NPAs. The scheme of Corporate Debt Restructuring (CDR) was notified in August 2001 by RBI for large borrowers with multiple bank accounts having the facility of 20 crores. RBI, in its guideline issued in 2001, found Lok Adalats suitable for recovery of small loans accounted in doubtful and loss category. The Securitization and Reconstruction of Financial' assets and Enforcement of Security Interest Act 2002 (SARFAESI) was enacted which empowered banks to take possession of assets and management of borrowing company to recover its loan.

In July 2014 RBI provided flexible structuring of long term project

loans to infrastructure and core industries through 5:25 Scheme to fix longer amortisation period for projects loans to infrastructure and core industries sectors (25 years), with periodic refinancing at every 5 years.

In its mission to curb NPA, the RBI in June 2015 attempted to revive stalled projects by giving equity participation to banks in such projects through Strategic Debt Restructuring (SDR) Scheme. After that a similar scheme named Sustainable Structuring of Stressed Assets (S4A) was launched in June 2016 to strength the lenders more as an optional framework for the resolution of large stressed accounts with bifurcation of the outstanding debt into sustainable debt and equity or quasi-equity instruments for the safety of the lenders if the borrower turns around.

In spite of all these efforts, the rising level of NPAs made RBI believe that banks were not doing assets classification properly and resorting to ever-greening of accounts so RBI conducted a special inspection, Asset Quality Review (AQR) in August to November in 2015. It revealed higher level of NPAs with inspected banks and influenced the banks to do proper provisioning for NPAs.

Besides the recovery efforts under the DRT & SARFASI mechanism to address the issue of NPA, RBI released guidelines in January, 2014 suggesting creation of a Central Repository of Information on Large Credits (CRILC) by RBI to collect, store, and disseminate credit data to banks on credit exposures of Rs. 5 crore and above and Formation of Joint Lenders Forum (JLF), Corrective Action Plan (CAP), and sale of assets to incentivise early identification of problem cases, timely restructuring of viable accounts and prompt steps by banks for recovery or sale of unviable accounts. Besides this, RBI has come out with new category of borrower called non-cooperative borrower. If fresh loan is issued to this kind of borrower higher provisioning will be required by banks.

The construction of Asset Reconstruction Company (ARC) is also in pipeline and a committee was set up under the chairmanship of Sunil Mehta, non-executive Chairman of Punjab National Bank to give recommendations on formation of ARC for faster resolution of stressed accounts.

The two major steps taken by Government of India and RBI will have a large impact on NPAs these are as follows:

A. Indradhanush Plan for revamping the Public sector banks

The Government of India in 2015 announced a plan to revamp public sector banks which have high NPAs and less profitability due to funding long term Infrastructure and other projects named Indradhanush (Ministry of Finance, 2015). Under this scheme government plan to infuse capital in PSBs so that better banks can have more room to grow and to keep a safe buffer over and above the minimum norms of Basel III. Government has so far infused capital of Rs. 59,435 crore in PSBs under Indradhanush till January, 2018.

Besides recapitalisation the government has taken other steps too for revamping PSBs. To make the working of the banks more transparent and professional the two separate posts of Managing Director and Chairman of the PSBs are created. Further to achieve this goal with more objectivity the Bank Board Bureau (BBB), a body of eminent professionals and officials, will replace the Appointments Board.They will also constantly engage with the Board of Directors of all the PSBs to formulate appropriate strategies for their growth and development. Before BBB the Department of Financial Services (DFS) was the common point of management of PSBs. If it is required that all PSUs should not be managed inefficiently in the same manner then they should be managed differently and decision making should be decentralised. BBB is envisaged to do so.

To give more autonomy to banks government issued a circular there will be no interference from Government and Banks are encouraged to take their decision independently keeping the commercial interest of the organisation in mind.

To measure the performance of PSBs a new framework of Key Performance Indicators (KPIs) was announced instead of present measure of performance, System of Intent (SoI). Some qualitative indicators like strategic initiatives taken to improve asset quality, improvement in external credit rating etc. are included with quantitative indicators. It is envisaged to curb the NPA problem by improving the governance of PSBs.

B. The Insolvency and Bankruptcy Code (IBC), 2016

The importance of IBC can be understood by the statement of former RBI governor Raghuram Rajan given in an interview, "An ecosystem for resolving non-performing assets (NPAs) is now in place with the passage of the Insolvency and Bankruptcy Code (IBC), the absence of which had impeded the ability of the RBI to tackle the problem". Now banks have both possibilities, either do an out-of-court re-structuring through the RBI process or, if that doesn't work, move under the Bankruptcy Code. This makes recovery of NPAs fast. The RBI has scrapped numerous loan restructuring programmes and made resolution of defaults time bound with the IBC. It also mandated that banks act quickly to resolve the big defaults. According to IBC banks have to come together to work out a resolution plan as soon as a default happens and if not done within 180 days, the account should be referred to the bankruptcy courts.

The new framework's overall focus is on recognising and quickly resolving bad loans.

The steps taken by RBI and Government explained above to curb NPA are moving in right direction now. But it is felt that had some steps taken earlier then NPA issue would have not been alarming. These reforms are adopted after some big defaults and scams had taken place such as Sahara,

Kingfisher and Modi default. The need of the hour is that now also the reforms should not remain in papers but bring to the working also.

7. Impacts of NPAs on the Growth of the Economy

The rising level of NPAs surely affects the growth of an economy badly especially the growth of a developing economy like ours where credit plays a major role in investment. NPA negatively affects the capacity to create credit of financial institutions by reducing the funds available for lending and further it also discourage the demand for credit by increasing the rate of interest. Thus both way it decreases the investment in an economy and make the goal of faster growth unachievable.

The rising level of NPAs of the banks is bringing a scarcity of funds in the Indian markets. PSBs are the major lender for corporate and priority sector in India. How the rising level of NPAs of PSBs in India have affected the credit growth can be better understand by a part of speech of Dr. Raghuram Rajan delivered at ASSOCHAM in 2016. He argued that credit growth has been largely affected because of stress in the public sector banking. Public sector bank non-food credit growth has been falling relative to credit growth from the new private sector banks (Axis, HDFC, ICICI, and IndusInd) since early 2014. This is reflected not only in credit to industry but also in micro and small enterprise credit. Yet personal loan growth, specifically housing loans, public sector bank loan growth approaches private sector bank growth. The lack of capital therefore cannot be the culprit. PSBs were shrinking exposure to infrastructure and industry risk right from early 2014 because of mounting distress on their past loans. Thus increasing NPAs of corporate and priority sector has created the hindrances for lending in future. This will definitely going to affect the growth of those sector as well as the overall growth of the economy. Though the process of recapitalisation of PSBs may change the scenario. Otherwise the slow credit growth to these sectors will have the negative impact on production and supply of this sector. This will give rise to interest rate and will bring the slowdown in investment in other sectors of the economy too. This will bring reduction in income and employment which in turn will affect the overall demand of the economy and will pull back the growth of the Indian Economy.

The rising level of NPAs will have negative effect on revenues of Banks. The higher the amount of non-performing assets the weaker will be the banks revenue inflow and risk for the depositors will increase. This will discourage the depositors and savings as well. The provisioning for NPAs also reducing their profits. The rising NPAs can destroy the financial system of a country. Thus it is necessary to control NPAs for the economic growth in the country, otherwise the resources can be jammed in unprofitable projects which will not only damage the financial stability but also the economic growth. If we look into the causes of great recession 2007-2009 which damaged not only economy of USA but also economies of many countries of the world find that non-performing loans were one of the main causes of this recession (Richard, 2011).

According to Care Ratings in December 2017, the four major economic drivers in the developed world like the US, the UK, Japan and Germany have sound banking systems with NPA ratios of less than 2 per cent (Care Ratings Ltd., 2017). Within the emerging economies China, Argentina and Chile had low ratios between 1 to 2 per cent. India's NPA ratio (which excludes the restructured assets which are around 2 per cnet higher than NPA) was the highest among BRICS nations.

India should learn from the experience of other countries. Throughout the 2000s, the Chinese government has taken steps to reduce NPLs and reform China's banking sector and was able to reduce the ratio of bad loans to GDP from 25 percent in 2000 to only 2 percent in 2010. Commercial banks stepped up NPL disposal by taking part in debt-to-equity swaps and establishing distressed asset management companies.Besides this the Chinese government also implemented incentives like tax breaks, exemption from administration fees and clear-cut asset evaluation norms. India can also adopt these measures of tax breaks and exemptions to the defaulters.

Within three weeks of the announcement of Bankruptcy of financial service firm Lehman Brothers in 2008, the biggest global bankruptcy that put more than $600 billion of assets under write down risks, the US administration began the Troubled Asset Relief Programme (TARP), creating the biggest bad bank to help recovery money seemingly sunk in subprime scam. When the programme ended in December 2014, TARP had recovered about $442 Billion of assets earning a profit of about $15 billion. But in the case of Kingfisher Airline (declared NPA in 2012) and Diamond Merchant (alleged for financial fraud in February, 2018) default Indian Authorities are still chasing the promoters. Only in June 2018 the announcement for setting up of a committee to seek recommendations for the formation of Asset Reconstruction Company was made. Its details like its structure, funding, pricing the loans and powers are still too sketchy to consider it with seriousness. Its success is doubted due to the fact that across the world almost all successful ARCs or Bad Banks dealt with sour housing loans whether it is Resolution Trust Corporation of the US (1989) or Arsenal and Sponda Arcs in Finland (1990s) or UK Asset Resolution Company (2008). Those bad housing loans were comparatively easy to tackle as compared to India's NPAs which consists of collateralised corporate assets involving consortium of lenders to finance large industrial or infrastructure projects.

IBC is posing a threat to defaulters and four lakh crore rupees of bad loans accumulated by banks had returned due to it in April 2018. There is also

the other side of the coin that out of the 12 cases (totalling about 25 per cent of the gross NPAs) referred by RBI for resolution under IBC in June 2017 only one Bhushan Steel has a successful story of resolution. Initially one year after setting up of IBC one single case was not filed against 12 large defaulters and still actions related to large stressed assets are not coming from the banks. Banks have to understand their responsibility and worked for NPA with out of the box thinking of set government influenced framework. There is a real rot in the internal and concurrent audit systems of banks. Banks need better permanent diagnostics to get to the bottom of wilful defaults though market intelligence, funds flow analysis and financial analysis. To make the IBC work effectively it is to be made sure that the functioning of the NCLT is unhampered, and that it goes to its logical conclusion and the number of appeals to that process is limited so that it doesn't become an endless circle of appeals.

RBI's supervisory capacity should be strengthen with human as well as technological resources. The use of Artificial Intelligence for the supervision of financial transactions could prevent financial fraud. In addition, linking Core Banking Systems (CBS) with Finacle technology (product developed by Infosys to provide universal banking functionality to bank) is crucial now for RBI.

8. Conclusion and Suggestions

The healthy financial system and credit flow is vital for the growth of the Indian economy. The mounting amount of NPAs have curtailed the profitability of banks and their credit creation capacity. It poses a big threat to the macro-economic stability of the Indian economy. An analysis of the present situation reveals that the problem is multi-faceted and has roots in economic slowdown, deteriorating business climate in India, shortages in the legal system and the operational shortcoming of the banks. Its stress has also grabbed the industrial and infrastructural development of India. The lenders, the other genuine investors and the regulator all are working under stress due to the fraud of some big defaulters. The major victims are PSBs since they have been the major contributor of bad loans. Out of the twenty five PSBs the eleven banks are under Prompt Corrective Action (PCA) and have to reduce their corporate loan book. The recapitalisation of PSBs and other stringent actions were taken by the government for the betterment of financial health of the PSBs so that can set to finance the enormous needs of the Indian economy once again.

Though many steps have been taken by RBI and the government to reduce NPAs but they are not enough. There is strong need to use individual's property along with company's property to be sealed for the recovery to curb the wilful default in India. The government needs to speed up the recovery process of loans and also need to reduce the mandatory lending to priority and core sector as it is one of the major contributor to bank's NPAs. Also, right fiscal and monetary policies along with RBI's strict supervision are needed to eradicate this disease from its root. The RBI directives and IBC time bound framework for resolution will definitely help in recovery of NPAs and to cover a part of the loss of lenders. But it is required that all the banks have to cooperate with RBI and IBC functioning should be made effective. The changes in banking law are also required to give PSBs and Private sector banks the same ground to play upon.

The good part of the story is that hopefully all the NPAs have been placed on the table. Senior bank officials who so far simply did not take risk of writing off the loan have now at least started acting under RBI directives. . In this, the government action to set up a Bank Board Bureau, which is tasked to identify capable senior executives to run the banks efficiently and improve governance levels, can play a key facilitating role. After all, part of the problem was created by the wrong kind of people getting into leadership positions in banks. If the ASC is formed considering all the issues in restructuring the bad loan then it will also speed up the resolution of NPAs in India. Though ARC seems an ambitious task having the experience of the resolution process till now yet the government does not have any other better option at hand in present.

The RBI and Government are doing their best to curb the problem of NPA which has given some hope and once bank balance sheets are lightened of the load of very high NPAs, there can be a return to normal credit creation activities and the growth of Indian economy will achieve its higher pace again.

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