

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
LOK SABHA  
UNSTARRED QUESTION NO-3484  
ANSWERED ON- 20/12/2021

**BANK NPAs**

3484. SHRI THIRUNAVUKKARASAR SU

Will the Minister of FINANCE be pleased to state:-

- (a) whether India's banking system NPAs may expect to rise to 8-9 per cent by the end of financial year 2021-2022;
- (b) if so, the details thereof along with details of the recovery rate of NPAs in PSBs during the last three years, year-wise;
- (c) whether the recovery of NPAs has reduced during the last three years;
- (d) if so, the reasons therefor; and
- (e) the details of the steps taken by the Governments to ensure prompt recovery of the NPAs by the PSBs?

**ANSWER**

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(DR. BHAGWAT KARAD)

(a) to (e): As per the Financial Stability Report (FSR) released by Reserve Bank of India (RBI) in July 2021, macro-stress tests, on the basis of regression modelling, indicate that the gross non-performing asset (GNPA) ratio of Scheduled Commercial Banks, under the baseline scenario, may increase from 7.48 per cent in March 2021 to 9.80 percent by March 2022.

As per RBI inputs, the said GNPA ratio has been arrived at without factoring in the impact of the policy actions under way. Therefore, the actual movement of GNPA of SCBs will depend on the extent to which the benefit of such policy interventions from the Central Government and RBI is availed of by the eligible borrowers which, in turn, facilitates revival of accounts under stress.

As per RBI data, aggregate gross advances of public sector banks (PSBs) increased from Rs. 18,19,074 crore as on 31.3.2008 to Rs. 52,15,920 crore as on 31.3.2014. As per RBI inputs, aggressive lending practices during this period along with wilful default / loan frauds / corruption in some cases, economic slowdown, *etc.*, were observed to be primary reasons for the spurt in the stressed assets. Asset Quality Review (AQR) initiated in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of NPAs. As a result of AQR and subsequent transparent recognition by banks, stressed accounts were reclassified as NPAs and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Primarily as a result of transparent recognition of stressed assets, gross NPAs of PSBs rose from Rs. 2,79,016 crore (gross NPA ratio of 4.97%) as on 31.3.2015, to Rs. 8,95,601 crore (gross NPA ratio of 14.58%) as on 31.3.2018, and as a result of Government's strategy of recognition, resolution, recapitalisation and reforms, have since declined to Rs. 6,16,616 crore (gross NPA ratio of 9.11%) as on 31.3.2021.

Comprehensive steps have been taken by the Government to reduce NPAs and to effect recovery, which enabled PSBs to recover Rs. 5,49,327 crore over the last seven financial years. The steps taken include, *inter alia*, the following:

- (1) Change in credit culture has been effected, with the Insolvency and Bankruptcy Code (IBC) fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners, and debaring wilful defaulters from the resolution process. To make the process more stringent, personal guarantor to corporate debtor has also been brought under the ambit of IBC. Under IBC, resolution plans have been approved in 394 cases up to June 2021, with Rs. 2.45 lakh crore amount realisable by financial creditors.
- (2) The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 has been amended to make it more effective, with provision for three months' imprisonment in case the borrower does not provide asset details, and for the lender to get possession of mortgaged property within 30 days.
- (3) As per RBI instructions, wilful defaulters are not sanctioned any additional facilities by banks or financial institutions, and their unit is debarred from floating new ventures for five years.
- (4) Wilful defaulters and companies with wilful defaulters as promoters/directors have been debarred from accessing capital markets to raise funds, *vide* Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2016.
- (5) Jurisdiction of Debt Recovery Tribunal (DRTs) was increased from Rs. 10 lakh to Rs. 20 lakh to enable the DRTs to focus on high value cases resulting in higher recovery for the banks and financial institutions. Six new DRTs have also been established to expedite recovery.
- (6) With Government infusion supplementing the raising of capital by PSBs from market, PSBs have achieved a high provisioning coverage ratio of 83.7% as on 31.3.2021, equipping them to take decision on resolution of NPAs without being constrained on account of such decision impacting their profitability.
- (7) Key reforms have been instituted as part of the Public Sector Banks Reforms Agenda, including, *inter alia*, the following:
  - (i) Stressed Asset Management Verticals were set up in banks for focused slippage prevention, recovery arrangement and time-bound action in respect of large-value stressed assets.
  - (ii) Board-approved loan policies of PSBs now mandate tying up necessary clearances/approvals and linkages before disbursement, scrutiny of group balance-sheet and ring-fencing of cash flows, non-fund and tail risk appraisal in project financing.
  - (iii) Use of third-party data sources for comprehensive due diligence across data sources has been instituted, thus mitigating risk on account of misrepresentation and fraud.
  - (iv) Monitoring has been strictly segregated from sanctioning roles in high-value loans, and specialised monitoring agencies combining financial and domain knowledge have been deployed for effective monitoring of loans above Rs. 250 crore.
  - (v) To ensure timely and better realisation in one-time settlements (OTSs), end-to-end OTS platforms have been set up in PSBs.

With regard to the details of the recovery rate of NPAs, RBI has informed that it has not formally defined 'recovery rate' in the context of NPAs in the banking industry. However, as per RBI data, recovery made by public sector banks (PSBs) during the financial year as a percentage of gross NPA as on beginning of the financial year (FY) has improved from 11.33% in FY2017-18, to 13.52% in FY2018-19, to 14.69% in FY2019-20. In FY2020-21, despite widespread impact of the COVID-19 pandemic on the economy and its cascading effect on the actions in respect of recovery measures, the recovery during the financial year as a percentage of gross NPA as on beginning of the financial year was still at 12.28%.

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