GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
UNSTARRED QUESTION NO-2234
ANSWERED ON- 08/03/2021

LAWS ON NPAs

2234. SHRI HEMANT SRIRAM PATIL
SHRI RAHUL RAMESH SHEWALE
SHRI OMPRAKASH BHUPALSINH *ALIAS* PAWAN RAJENIMBALKAR

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has evaluated the performance of laws enacted by the Government to curb rising Non-Performing Assets (NPAs) of the Public Sector Banks (PSBs) before taking decision of infusion of capital in such banks;

(b) if so, the details and outcome thereof and if not, the reasons therefor;

(c) whether the Government has conducted any study on the success of the previous re-capitalisation of PSBs in the country;

(d) if so, the details and outcome thereof and if not, the reasons therefor; and

(e) the other steps taken/being taken by the Government to ensure effective implementation of the Laws enacted to curb NPAs to avoid re-capitalisation of PSBs in the country?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI ANURAG SINGH THAKUR)

(a) to (e): Three laws assist in dealing with non-performing assets (NPAs) of banks, *viz.* the Insolvency and Bankruptcy Code, 2016 (IBC), the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest, 2002 (SARFAESI Act), and the Recovery of Debts and Bankruptcy Act, 1993 (RDB Act). As per data of the Insolvency and Bankruptcy Board of India, through action against borrowers under IBC, financial creditors including scheduled commercial banks (SCBs) have recovered an amount of Rs. 1,76,674 crore during the last three financial years, and as per Reserve Bank of India data, SCBs have additionally recovered an amount of Rs. 1,66,187 crore through action under SARFAESI Act and RDB Act during the same period. This recovery and other steps taken by Government and the Reserve Bank of India, have led to a reduction in gross NPA of public sector banks (PSBs) have from a peak of Rs. 8.96 lakh crore as on 31.3.2018 to Rs. 5.77 lakh crore as on 31.12.2020.

With regard to recapitalisation of PSBs, the objectives of recapitalisation are aligned with those of the regulatory framework, and include raising the resilience of banking institutions, addressing system-wide risks, and increasing the risk coverage of the capital framework. Timely recapitalisation has enabled PSBs to remain compliant with stringent

Basel II capital norms implemented for banks in India w.e.f. 31.3.2008, and also with further stringent Basel III capital norms w.e.f. 1.4.2013.

Capital is infused in PSBs from time to time to supplement bank's efforts to meet capital requirement. Since March 2008, Government has infused Rs. 3.87 lakh crore in PSBs, whereas PSBs themselves have mobilised capital of Rs. 4.05 lakh crore from market in the form of both equity and bonds, out of which Rs. 55,670 crore have been raised in the current financial year, up to 3.3.2021.

Capital being a key measure of a bank's capacity for generating loan assets, is essential for credit expansion. Enabled by the recapitalisation, PSBs' advances have grown at a compound annual growth rate of 11.4% during period from March 2008 to March 2020. During this period, PSBs have also witnessed excessive build-up of stress in their loan portfolio resulting in their gross non-performing assets (GNPAs) at 14.58%.

Recapitalisation has been part of Government's overarching policy response of recognition of stress, resolution of stressed accounts, recapitalisation, and reforms in banks. As a part of the reforms, Government has instituted since 2018, a comprehensive framework for institutionalised monitoring of bank-wise progress on Enhanced Access & Service Excellence (EASE) Reforms for PSBs. Under EASE Reforms, bank-wise progress is being monitored through an independent agency on over 100 objective and benchmarked metrics incorporated in an EASE Reforms Index, which is reviewed on quarterly basis by bank Boards and also publicly reported in a transparent manner through an annual report and quarterly updates. It is observed that all PSBs have shown improvement over their baseline Index score in each of the last two financial years.

As a result of timely recapitalisation coupled with reforms, financial health of PSBs has improved significantly, as reflected in the following:

(i) Gross NPAs have reduced from Rs. 8.96 lakh crore in March 2018 to Rs. 5.77 lakh crore in December 2020;
(ii) Record recovery of Rs. 2.74 lakh crore has been effected since March 2018 till December 2020;
(iii) Occurrence of frauds has declined sharply, from an average of 0.72% of advances during FY2009-10 to FY2013-14 and peak of 1.01% in FY2013-14 to 0.23% in FY2019-20;
(iv) Asset quality has improved significantly, with the net NPA (NNPA) ratio reducing from 7.97% in March 2018 to 2.32% in December 2020;
(v) As against 2 out of 21 PSBs in profit in March 2018, 11 out of 12 PSBs were in profit in December 2020;
(vi) Number of PSBs under RBI's prompt corrective action (PCA) reduced from 11 in March 2018, to 3 in December 2020; and
(vii) Capital adequacy has improved significantly, with—
    - Capital to risk-weighted assets ratio (CRAR) improving by 208 basis points, from 11.66% in March 2018 to 13.74% in December 2020, and
    - Provision coverage ratio rising to 87.47% in December 2020, from 62.7% in March 2018, reflecting increased resilience.

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