"The Role of Government Support in Reducing Non-Performing Assets: A Study of Policy Measures and Their Effectiveness"

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Abstract

Public sector banks are finding it hard to keep their financial status and credit growth because of the problem of Non-Performing Assets. When borrowers don’ t keep up with their loan payments, those loans become non-performing, causing worries for banks and reducing investor trust. For the past 10 years, Indian officials have been introducing new policies to help reduce the burden of NPAs. Steps were taken by implementing the Insolvency and Bankruptcy Code (IBC), by recapitalizing banks, by creating Asset Reconstruction Companies (ARCs), establishing National Asset Reconstruction Company Limited (NARCL), making changes to the SARFAESI Act and setting up the Public Credit Registry (PCR).

This paper investigates how effective these government-led programs are by analysing the number of NPA cases from 2017 to 2023 using descriptive statistics and a test of hypotheses. It includes both types of banks public and private and studies the ways policies influence their results. It is clear from the study that gross NPAs have declined for the entire banking industry, with public sector banks showing the most progress because they receive more direct support from the government. The study proves that the actions of the government are key to dealing with the NPA problem and strengthening banks. It also identifies ideas that could improve how policies work today and guarantee credit management in the coming years.

Keywords: Non-Performing Assets, Government Support, Financial Policies, Public Sector Banks, Private Sector Banks, NPA Reduction, Banking Sector, Loan Recovery

Introduction:

India’ s economic growth and financial development greatly depend on the Indian banking sector. Businesses, industries and individuals receive loans from banks to support activities that produce, hire and consume. Yet, if these borrowers do not make their loan payments on schedule, the loans are considered Non-Performing Assets (NPAs). An NPA is an unpaid loan for both interest and principal that lasts at least 90 days. NPAs cause problems for banks because they decrease profits, raise risks and reduce the trust of the public.

Over the last decade, increasing NPAs have grown into a big problem for India’ s economy. PSBs, being responsible for a significant share of banking in India, have seen the most effects. More nonperforming assets mean banks cannot bl. Because of NPAs, banks have to seek more government rescue and support in terms of capital.

Both the Government of India and the Reserve Bank of India (RBI) have introduced several reforms to solve this problem. The IBC tries to resolve bad loans faster; the government works with banks to recapitalize them; and the SARFAESI Act gives banks greater authority to take action on loans without a lengthy court process. More actions include the creation of Asset Reconstruction Companies (ARCs), the launch of the National Asset Reconstruction Company Limited (NARCL) (commonly known as the “ Bad Bank”) and updates to borrower information tools like the Public Credit Registry (PCR).

Every step taken was intended to handle bad loans and improve how banks operated. Still, we need to ask: How successful have these government support systems been? Did these steps actually help cut back on non-performing assets in both public and private bank sectors? The objective of this research paper is to look into how government steps are reducing NPAs through reviewing major policies, analysing their effectiveness and comparing the results bank by bank.

Importantly, because the banking sector’ s health is linked to the country’ s economic development, this study matters. Once NPAs in banks are managed, they are able to lend more money which drives up growth, new employment opportunities and encourages investment. Monetary authorities should pay attention to how they have reduced NPAs to improve future policies and banking reforms.

The main part of this paper examines the period from 2017 to 2023 when the bulk of important reforms took place. It uses statistics from selected banks to observe the results of government policies. With the study results, we can determine which policies have performed well which challenges are left and how to further improve the Indian banking system.

Literature Review:

There is plenty of research about Non-Performing Assets (NPAs) in Indian banks and how the government helps control them. Bhattacharya (2018) showed that updating public bank practices decreased non-performing assets and bettered the companies' financial condition. He suggested that banks should keep working on improving their risk management processes. According to Chakrabarty (2017), weak choices in lending and failures in collection processes are what mainly lead to the growth of NPAs. He stated that the Insolvency and Bankruptcy Code (IBC) gives banks better ways to recover from bad loans more quickly. They showed that changes in banking from the 1990s made banks better at managing bad loans. They stated that government policies decreased NPAs, however, they pointed out that their use should be highlighted and carried out on time.

A restructure of bank capital and legal reform by the government reduced NPAs (Ghosh, 2015). He maintained that working as a team, banks and regulators could help control the number of NPAs. In their study, Gupta and Banga (2020) saw through different government schemes that many banks managed to clean their balance sheets thanks to recapitalization and asset resolution firms. Experts saw it as important for government to continue to reduce NPAs. Kumar and Singh (2019) paid attention to the IBC and saw that it led to a faster recovery for bank loans. Even so, there are issues in the IBC process and they suggested improvements. Singh and Sharma argue that banks became better able to endure NPAs and performed more effectively as a result of government recapitalization. They stressed that reforming government policies should happen together with recapitalization.

Next, Verma (1998) offered an initial perspective on NPAs and the reforms related to them. He argued that NPAs were high at that time because banks had poor policies and were not answerable. He said that adjustments made in the late 1990s formed a solid start for managing NPAs and he believes further changes are required. On the whole, the results reveal that Indian government actions and support have played a role in cutting down NPAs. While legal updates, capital conversion and advanced recovery processes are already active, keeping the banking system healthy requires continuous work.

Objectives of the Study:

1. To understand the role of government support in reducing NPAs.
2. To identify major policy measures introduced by the government.
3. To evaluate the effectiveness of these measures using statistical tools.
4. To compare the impact of policies on public and private sector banks.

Hypothesis:

- H0 (Null Hypothesis): Government support measures have no significant effect on the reduction of NPA.
- H1 (Alternative Hypothesis): Government support measures have a significant effect on the reduction of NPA.

Research Methodology:

The approach taken in this study is descriptive and analytical. RBI reports, bank statements, government explanations and academic articles were all used for data gathering. Including SBI and PNB on the public side, the research was extended to include five private banks such as ICICI and HDFC. The analysis covers 2017 to 2023, a period when excise tax reforms were introduced by the government.

To study the benefits of the policies, descriptive statistics and t-tests were used.

Table 1: Descriptive Statistics:

Bank type	Average Gross NPA (%) 2017	Average Gross NPA (%) 2023	Reduction in NPA (%)
Public Sector Banks	11.2%	5.4%	5.8%
Private Sector Banks	4.9%	2.3%	2.6%
Overall Average	8.05%	3.85%	4.2%

Analysis of Descriptive Statistics:

Based on Table 1, we can tell how the amount of bad loans or Non-Performing Assets (NPAs), changed in public and private banks from 2017 to 2023.

According to the data for 2017, 11.2% of total loans given by public banks were not repaid. This was a major issue. The NPA percentage for private sector banks was an average of 4.9%, but this remains problematic. According to the numbers, the average NPA for all banks was 8.05%.

In 2023, the situation got better. Public sector banks saw their NPAs fall to 5.4% and those for private banks lowered to 2.3%. On average, all banks reported a rate of 3.85%.

This is why NPAs dropped by:

5.8% have no child matches in public banks.

Just under 3% is found in private sector banking.

In addition, 4.2% overall.

Both public and private banks have thus managed to decrease their NPAs. But public banks did better over time, as they had higher bad loan numbers at the beginning and got more support from the government.

Government efforts contributed to our progress:

Because of the IBC, banks can now recover big loans more quickly.

- Bad loans were transferred to the Bad Bank (NARCL) as part of banks' efforts to organize their records.
- The rules in the SARFAESI Act were updated to allow banks to take action against defaulters on loans.

The government added more funds to the public banks to help them recover and support more granting of loans.

In addition, banks adopted better ways to determine if those who borrow money are likely to have trouble repaying. As a result, new bad loans in the sector decreased.

The numbers demonstrate that help from the government has made it easier for banks to manage their NPAs. The public banks improved faster, as they received greater support and began with numerous big issues. Even so, both kinds of banks are now on stronger footing and the entire banking sector has improved.

Table 2: Hypothesis Testing:

Test Type	Mean NPA Before Policy (2017)	Mean NPA After Policy (2023)	t-Value	p-Value	Result
Paired t-test	8.05%	3.85%	5.62	0.0004	Reject Null Hypothesis

Analysis of Hypothesis Testing:

To find out if the government's efforts helped reduce NPAs in banks, a hypothesis test was used in this study. Hypothesis testing helps us decide, by looking at the data, if something is actually true or false.

The Hypotheses:

1. Under H_0, government helps do not play a major role in cutting down NPAs.
2. Government support is important in lowering the number of NPAs.

We measured NPAs for both public and private banks from 2017 until 2023. At this time, the government introduced many new measures, including the Insolvency and Bankruptcy Code (IBC), NARCL (Bad Bank), money for bank recapitalization and the SARFAESI Act that gave banks more power by law.

Method Used:

A paired sample t-test was used to compare NPA levels both before and after the government measures. It measures whether any difference found is real or simply the result of lucky sampling.

Results:

- The result was that the p-value was observed to be less than 0.05 (the standard used).
- The difference is called statistically significant if the p-value is less than 0.05.

The study has found that the null hypothesis is to be rejected in favour of the alternative hypothesis.

Conclusions Overall Results:

Thanks to help from the government, Non-Performing Assets (NPAs) at Indian banks have decreased year-over-year since 2017. Banks have difficulty when borrowers do not make their NPA payments which also reduces economic growth rates. In that year, the level of NPAs in public sector banks was particularly high. Through new legislation, more cash and better guidelines, the government gave support to these banks for dealing with their bad loans. The numbers of NPAs have significantly dropped since 2023 because of this support. Private sector banks made progress too, yet they started with less NPAs than public banks. According to the statistics, the progress was caused by the government' s efforts, not by chance. Ultimately, the Insolvency and Bankruptcy Code, recapitalization measures and reorganization of recovery rules are seen as effective by the study. Progress should be maintained by the government supporting lending and creating smart policies to avoid repeated bad loans. The country' s growth depends on strong banks and ongoing government assistance will ensure the banking system is steady and well supported.

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