# Banks’ Gross NPAs Drop to 3.2%

**Source: IE**

## Why in News?

The **gross non-performing asset (GNPA)** ratio for **Scheduled commercial banks (SCBs)** witnessed a significant decline, falling from **3.9%** at the end of March 2023 to **3.2%** by the end of **September, 2023,** as per the recent report of **Reserve Bank of India (RBI).**

- **Contributing factors:** Write-offs, Upgrades, and Recoveries.

## What is a Non-Performing Asset?

- **About:**
  - As per **RBI,** an asset becomes non-performing when it ceases to generate income for the bank.
  - NPA is usually a loan or advance for which the **principal or interest** payment remained overdue for a certain period of time.
    - In most cases, **debt is classified as non-performing,** when the loan payments have not been made for a **minimum period of 90 days.**
    - For agriculture, if principle and interest is not paid for **2** cropping seasons, the loan is classified as NPA.
- **Types:**
  - Banks are required to classify NPAs further into the following three categories based on the period for which the asset has remained non-performing and the realizability of the dues:
    - **Sub-standard Assets:** A substandard asset is an asset classified as an NPA for a period less than or equal to 12 months.
    - **Doubtful Assets:** A doubtful asset is an asset that has been non performing for a period exceeding 12 months.
    - **Loss Assets:** Assets that are uncollectible and where there is little, or no hope of recovery and that needs to be fully written off.
- **Gross NPA(GNPA) and Net NPA:**
  - **GNPA:** This is the total amount of NPAs **without deducting the provisional amount.**
  - **Net NPA:** This is the gross NPA **minus the provision**.
    - Provision refers to **funds left aside by banks** to cover potential losses arising from bad loans or NPAs.
- **Provisions to Deal with NPAs in India:**
  - **The Recovery of Debts due to Banks and Financial Institutions Act (RDB Act), 1993**: It established **Debt Recovery Tribunals (DRTs) and Debts Recovery Appellate Tribunals (DRATs)** to quickly adjudicate and recover debts owed to banks and financial institutions.
  - **The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (**SARFAESI Act**), 2002:** Empowers banks and financial institutions to take possession and sell secured assets of **defaulting borrowers** without court intervention.
  - **The** Insolvency and Bankruptcy Code (IBC), 2016**:** Provides a **fast-track corporate insolvency resolution** process for stressed assets, including NPAs.

- IBC has helped resolve **Rs 3.16 lakh crore of debt stuck** in 808 cases, since its inception.

- **Write-offs:** Write-offs refer to the r**emoval of a non-performing loan or asset from the bank's books** as an acknowledgment that the debt is unlikely to be recovered.
  - This action does not absolve the borrower from the obligation to repay but acknowledges the unlikelihood of recovery.
- **Upgrades:** It refers to the process of reclassifying a loan account from NPA back to a **"standard" asset category,** if certain conditions are satisfied including: arrears of interest and principal are paid by the borrower.
- **Recoveries:** Recoveries represent the **funds or assets regained by the bank after taking actions** to collect on defaulted loans or NPAs.
  - These can include repayments, collateral liquidation, or settlements after pursuing recovery mechanisms.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

***Prelims***

**Q. Which of the following statements best describes the term ‘Scheme for Sustainable Structuring of Stressed Assets (S4A)’, recently seen in the news? (2017)**

**(a)** It is a procedure for considering ecological costs of developmental schemes formulated by the Government.

**(b)** It is a scheme of RBI for reworking the financial structure of big corporate entities facing genuine difficulties.

**(c)** It is a disinvestment plan of the Government regarding Central Public Sector Undertakings.

**(d)** It is an important provision in ‘The Insolvency and Bankruptcy Code’ recently implemented by the Government.

**Ans: (b)**

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