GNPA Ratio

Why in News?

As per the **Reserve Bank of India (RBI)**, the **Gross Non-Performing Assets (GNPA)** ratio, which **declined to a seven-year low of 5% in September 2022, is expected to improve further to 4.9% by September 2023.**

- However, if the macroeconomic environment worsens to a medium or severe stress scenario, the **GNPA ratio may rise to 5.8% and 7.8%, respectively.**

What are the Other Observations?

- The ratio of GNPA to gross advances stood at 5.9% in March 2022. As of September 2022, the **Net Non-Performing Assets (NNPA) ratio stood at a ten-year low of 1.3%**, wherein the Private Sector Banks (PVBs') **NNPA ratio was below 1%.**
- GNPA ratios of **Public Sector Banks (PSBs) may rise from 6.5%** in September 2022 to 9.4% in September 2023, whereas **it would go up from 3.3% to 5.8% for PVBs** and **from 2.5% to 4.1% for Foreign Banks (FBs)**, under the severe stress scenario.
- Under the baseline scenario, the aggregate **Capital to Risk Weighted Assets Ratio (CRAR)** of major banks is **projected to slip from 15.8% in September 2022 to 14.9%** by September 2023.
- The Common Equity Tier-1 (CET1) **capital ratio of some of the banks may decline from 12.8%** in September 2022 to 12.1% by September 2023 under the baseline scenario.

What are Some of the Key Terms?

- **GNPA:** These assets are the sum of all the loans that have been defaulted by the individuals who have acquired loans from the financial institution.
- **Macro-environment:** It refers to how the macroeconomic conditions in which a company or sector operates influence its performance.
  - Macroeconomics **deals with aggregate production, spending, and the price level in an economy** as opposed to individual industries and markets.
- **NNPA:** These are the amount that is realised after provision amount has been deducted from the gross non-performing assets.
- **CRAR:** The Capital Adequacy Ratio, also known as CRAR, is used to protect depositors and promote the stability and efficiency of financial systems around the world.
  - The CAR is a **measure of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures.**
- **CET1:** It includes equity instruments where returns are linked to the banks' performance and therefore the performance of the share price. They have no maturity.
  - According to **Basel-III norms**, banks' regulatory capital is divided into Tier 1 and Tier 2, while Tier 1 is subdivided into Common Equity Tier-1 (CET-1) and Additional Tier-1 (AT-1) capital.

What is a Non-Performing Asset?

- NPA refers to a **classification for loans or advances that are in default** or are in arrears on scheduled payments of principal or interest.

- Banks **are required to classify non-performing assets further into the following three categories** based on the period for which the asset has remained non-performing and the realisability 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 nonperforming for a period exceeding 12 months.
    - **Loss Assets:** Loss assets are loans with losses identified by the bank, auditor, or inspector that need to be fully written off.

UPSC Civil Services Examination Previous Year Question (PYQ)

Q. With reference to the governance of public sector banking in India, consider the following statements: (2018)

1. Capital infusion into public sector banks by the Government of India has steadily increased in the last decade.
2. To put the public sector banks in order, the merger of associate banks with the parent State Bank of India has been affected.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Ans: (b)

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