

Non-performing assets of the banking sector

3.29 There was a significant decline in the non-performing assets (NPAs) of SCBs in 2003-04, despite adoption of 90 day delinquency norm from March 31, 2004. The gross NPAs of SCBs declined from 4.0 per cent of total assets in 2002-03 to 3.3 per cent in 2003-04. The corresponding decline in net NPAs was from 1.9 per cent to 1.2 per cent. Both gross NPAs and net NPAs declined in absolute terms. While the gross NPAs declined from Rs. 68,717 crore in 2002-03 to Rs. 64,787 crore in 2003-04, net NPAs declined from Rs. 32,670 crore to Rs. 24,617 crore in the same period. There was also a significant decline in the proportion of net NPAs

to net advances from 4.4 per cent in 2002-03 to 2.9 per cent in 2003-04. The significant decline in the net NPAs by 24.7 per cent in 2003-04 as compared to 8.1 per cent in 2002-03 was mainly on account of higher provisions (up to 40.0 per cent) for NPAs made by SCBs.

3.30 The decline in NPAs in 2003-04 was witnessed across all bank groups. The decline in net NPAs as a proportion of total assets was quite significant in the case of new private sector banks, followed by PSBs. The ratio of net NPAs to net advances of SCBs declined from 4.4 per cent in 2002-03 to 2.9 per cent in 2003-04. Among the bank groups, old private sector banks had the highest ratio of net NPAs to net advances at 3.8 per cent followed by PSBs (3.0 per cent) new private sector banks

(2.4 per cent) and foreign banks (1.5 per cent) (Table 3.5).

3.31 An analysis of NPAs by sectors reveals that in 2003-04, advances to non-priority sectors accounted for bulk of the outstanding NPAs in the case of PSBs (51.24 per cent of total) and for private sector banks (75.30 per cent of total). While the share of NPAs in agriculture sector and SSIs of PSBs declined in 2003-04, the share of other priority sectors increased. The share of loans to other priority sectors in priority sector lending also increased. Measures taken to reduce NPAs include reschedulement, restructuring at the bank level, corporate debt restructuring, and recovery through Lok Adalats, Civil Courts, and debt recovery tribunals and compromise settlements. The recovery management received a major fillip with the enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 enabling banks to realise their dues without intervention of courts and tribunals. The Supreme Court in its judgment dated April 8, 2004, while upholding the constitutional validity of the Act, struck down section 17 (2) of the Act as unconstitutional and contrary to Article 14 of the Constitution of India. The Government amended the relevant provisions of the Act to address the concerns expressed by the Supreme Court regarding a fair deal to borrowers through an ordinance dated November 11, 2004. It is expected that the momentum in the recovery of NPAs will be resumed with the amendments to the Act.

3.32 The revised guidelines for compromise settlement of chronic NPAs of PSBs were issued in January 2003 and were extended from time to time till July 31, 2004. The cases filed by SCBs in Lok Adalats for recovery of NPAs stood at 5.20 lakh involving an amount of Rs. 2,674 crore (prov.). The recoveries effected in 1.69 lakh cases amounted to Rs. 352 crore (prov.) as on September 30, 2004. The number of cases filed in debt recovery tribunals stood at 64, 941 as on June 30, 2004, involving an amount of Rs. 91,901 crore. Out of these, 29, 525 cases involving an amount of Rs. 27,869 crore have been adjudicated. The amount recovered was to Rs. 8,593 crore. Under the scheme of corporate debt restructuring introduced in 2001, the number of cases and value of assets restructured stood at 121 and Rs. 69,575 crore, respectively, as on December 31, 2004. Iron and steel, refinery, fertilisers and telecommunication sectors were the major beneficiaries of the scheme. These sectors accounted for more than two-third of the values of assets restructured.

3.33 As credit information is crucial for the development of the financial system and for addressing the problems of NPAs, dissemination of credit information on suit-filed defaulters is being undertaken by the Credit Information Bureau of India Ltd. (CIBIL) from March 2003. In its annual policy statement for 2004-05, the RBI advised banks and financial institutions to review the measures taken for furnishing credit information in respect of all borrowers to CIBIL. In its mid-term review, the RBI again urged the banks to make persistent

Table 3.5 : Non-performing assets of scheduled commercial banks

Items	Gross NPAs (Rs. Crore)			Percentage to gross advances			Percentage to total assets		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
Bank group									
1. Public sector	56473	54090	51538	11.1	9.4	7.8	4.9	4.2	3.5
2. Private sector	11662	11782	10355	9.6	8.1	5.8	4.4	4.0	2.8
3. Foreign	2726	2845	2894	5.4	5.3	4.6	2.4	2.4	2.1
4. SCBs(1+2+3)	70861	68717	64787	10.4	8.8	7.2	4.6	4.0	3.3
Items									
	Net NPAs (Rs. Crore)			Percentage to net advances			Percentage to total assets		
1. Public sector	27958	24867	18860	5.8	4.5	3.0	2.4	1.9	1.3
2. Private sector	6676	6882	4857	5.7	5.0	2.8	2.5	2.3	1.3
3. Foreign	920	921	900	1.9	1.8	1.5	0.8	0.8	0.7
4. SCBs(1+2+3)	35554	32670	24617	5.5	4.4	2.9	2.3	1.9	1.2

efforts in obtaining consent from all the borrowers, in order to establish an efficient credit information system, which would help in enhancing the quality of credit decisions, improve the asset quality, and facilitate faster credit delivery.

Capital adequacy ratio

3.34 The concept of minimum capital to risk weighted assets ratio (CRAR) has been developed to ensure that banks can absorb a reasonable level of losses. Application of minimum CRAR protects the interest of depositors and promotes stability and efficiency of the financial system. At the end of March 31, 2004, CRAR of PSBs stood at 13.2 per cent, an improvement of 0.6 per centage point from the previous year. There was also an improvement in the CRAR of old private sector banks from 12.8 per cent in 2002-03 to 13.7 per cent in 2003-04. The

CRAR of new private sector banks and foreign banks registered a decline in 2003-04. For the SCBs as a whole the CRAR improved from 12.7 per cent in 2002-03 to 12.9 per cent in 2003-04. All the bank groups had CRAR above the minimum 9 per cent stipulated by the RBI.

3.35 During the current year, there was further improvement in the CRAR of SCBs. The ratio in the first half of 2004-05 improved to 13.4 per cent as compared to 12.9 per cent at the end of 2003-04. Among the bank groups, a substantial improvement was witnessed in the case of new private sector banks from 10.2 per cent as at the end of 2003-04 to 13.5 per cent in the first half of 2004-05. While PSBs and old private banks maintained the CRAR at almost the same level as in the previous year, the CRAR of foreign banks declined to 14.0 per cent in the first half of 2004-05 as compared to 15.0 per cent as at the end of 2003-04.