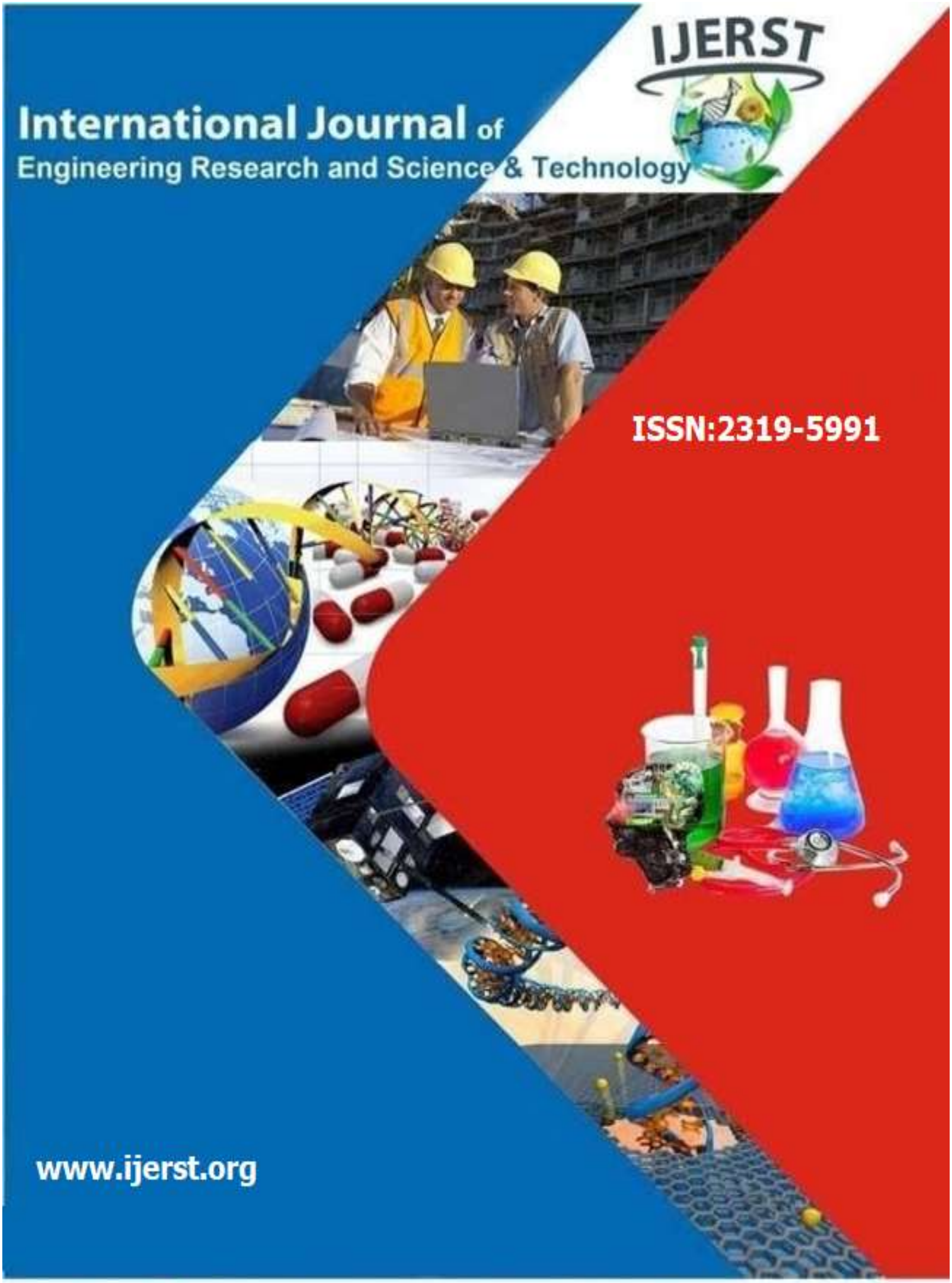
ISSN 2319-5991 www.ijerst.com
Vol. 19, Issue 1, 2023



E-mail: editor@ijerst.org or ijerst.editor@gmail.com

ISSN 2319-5991 www.ijerst.com
Vol. 19, Issue 1, 2023

Economic Growth Under Pressure: The Influence of Non-Performing Assets

Dr. Pavan Nagorao Bahekar,

Ph. D from Rashtrasant Tukdoji Maharaj Nagpur University, Nagpur.

pawanbahekar@hotmail.com

Abstract

Problems arising from NPAs have become a serious worry for Indian banks and those who make financial policies. As more NPAs occur, banks face problems with profit, running efficiently and being believed in which slows the economy. This paper seeks to assess the increase in non-performing assets and its effects on India's economic performance. The researchers gather secondary information from financial providers and statistical analysis tools to see if there is a relationship between non-performing assets and the growth of GDP. Research results prove that as banks non-performing assets rises, the sector's willingness to support productive investment grows less, causing the economy to develop sluggishly.

Keywords: Non-Performing Assets (NPAs), Economic Growth, Banking Sector, GDP, Financial Health, Credit Flow, Risk Management

Introduction

A country's economy depends greatly on its banks. They provide loans to individuals and companies after accepting money from them. As a result, banks grow the economy by serving businesses, creating new employment and expanding production.

But if those who receive loans cannot pay them back on the agreed date, the loan is labeled as a Non-Performing Asset (NPA). An NPA means a loan or advance where the money has not been repaid or interest earned for 90 days or longer. When people don't pay back their loans, banks are left without the money they gave out. As a consequence, banks end up with less money and are unable to issue new loans as often.

There has been a steep rise in NPAs in India, with public sector banks being most affected recently. Many issues have led to this challenge, for example, irresponsible lending practices, missed checks before granting loans, delays with big infrastructure works and times of economic slowdown. With a higher amount of NPAs, banks do not have much money left to

ISSN 2319-5991 www.ijerst.com
Vol. 19, Issue 1, 2023

lend to young or fast-growing companies. It makes the economy less likely to invest and grow.

Banks problems often mean businesses can’t obtain enough funding which negatively affects the economy. Growth of the economy slows as businesses don’t expand much, new jobs are hard to come by and people’s incomes are reduced. That is why the matter of NPAs is too important for banks alone it affects the economy.

The paper explores the impact NPAs have on the economic growth of India. Recent data is examined to check if there is a relationship between higher NPAs and a slowing GDP. The analysis considers how NPAs may influence credit development, as this is important for economic progress. The research seeks to study this connection to find techniques that reduce NPAs and help the banking sector improve, allowing India's economy to develop more quickly.

Review of literature:

Experts have looked into how Non-Performing Assets (NPAs) influence both India’s banks and its economy. According to Agarwal (2019), higher NPAs can make banks unstable and less capable of loaning out money which reduces economic growth. As a result of higher NPAs, Banerjee and Sharma showed in 2020, banks lend less money to reduce their risks. Because lending is reduced, companies have difficulty growing and the economy moves slower. According to Choudhary (2021), when a lot of NPAs are reported, banks start giving fewer loans which then reduces investing and spending, contributing to India’s economic downturn. From Guitars work in 2022, we learn that by introducing new laws, the government and banks hope to reduce NPAs, even though banks still need better management to improve. They noted that NPAs create difficulties and added that better checking of loans and a quick recovery of defaulted loans are solutions. Tiwari (2019) pointed out that increasing NPAs reduce bank profit and lending, so he recommended strengthening risk management to help banks avoid NPAs and keep expanding. Basically, it is clear from these studies that large NPAs weaken banks and hurt the economy’s expansion. To fix the problem, banks and the government have to manage NPAs better and set up stricter policies.

Objectives of the Study:

1. To look into the trend of NPAs in the banking sector in India.

ISSN 2319-5991 www.ijerst.com
Vol. 19, Issue 1, 2023

2. To see what effect NPAs have on growth in the Indian economy.
3. To see if non-performing assets affect the overall credit flow in different economies.
4. To recommend possible solutions to manage NPAs well and boost economic growth.

Hypothesis:

- Null Hypothesis (H_0): NPA rates have little effect on India's economic growth.
- Alternative Hypothesis (H_1): In India, economic growth suffers when there are a large number of NPAs.

Research methodology:

Numbers and data are used in this study to find out how NPAs affect the economy of India. All the data used comes from the years 2013 to 2022. I have gathered the data from the Reserve Bank of India (RBI), the Economic Survey of India, the Ministry of Finance and the World Bank. They explain how many NPAs banks managed, the Indian economy's GDP growth and how much credit or loans banks gave in those years.

Basic tools in math such as averages and percentages, revealed the trends existing over the years. We also employed correlation to establish the strength of the link between non-performing assets and the development of the economy. Therefore, we investigated whether a high number of NPAs relates to poor economic growth. For analysing the data, the researcher used programs such as Microsoft Excel and SPSS. It reveals whether NPAs influence the economy in a negative way and what changes can be made to improve the banking system.

Table 1: Descriptive Statistics:

Year	Gross NPA (%)	GDP Growth (%)	Credit Growth (%)
2013	3.42	6.4	13.5
2014	4.1	7.4	12.2
2015	5.1	8.0	10.8
2016	7.5	8.2	8.5
2017	9.3	7.0	6.9
2018	10.4	6.1	5.2
2019	9.1	4.2	6.8
2020	7.5	-6.6	5.6

ISSN 2319-5991 www.ijerst.com
Vol. 19, Issue 1, 2023

2021	6.9	8.7	7.2
2022	5.9	7.0	8.3

Analysis of Descriptive Statistics:

We can identify the important information from the data using it. Our analysis used data from the years 2013 to 2022 to study trends in Gross NPAs (%), the development of GDP (%) and the speed of credit growth (%). They show the strengths of the banking system and the overall condition of the economy.

It shows that Gross NPA went from 3.42% in 2013 to 10.4% in 2018. At this point, banks didn't receive many loan repayments from individuals. When non-performing assets reach a high percentage, it means banks are not getting back the loan amounts they gave out. From 2018 onwards, the NPA percentage moved down a little step by step to end at 5.9% in 2022. Accordingly, what the government and banks did seemed to bring some relief to the problem.

In the same period, GDP remained steady at high rates of 8.0%-8.2% in the years 2015 and 2016 and afterwards grew at much slower rates. Because of the COVID-19 outbreak in 2019, the growth figure dropped to only 4.2%. Even though China's economy reached 8.7% growth in 2021, by 2022 it had slowed to 7.0% growth. There were obviously times when the economy thrived and others when it suffered.

Credit Growth is how banks increase the amount of loans that they give. From 2013 to 2018, the share of other banks dropped, even though NPAs were still high. A bank will be more careful in handing out loans when it has a larger number of NPAs. We see this fact when we look at the gentle rise in credit volumes. In 2018, new credits were given out and by 2022, the total credit growth hit 8.3%—a sign the economy has improved.

When non-performing assets increased, both economic expansion and credit rates declined.

- As the number of NPAs went down and lending increased, the economy started to get better.

If banks face significant NPAs, they generally become reluctant to lend which slows down the economic and business activities in a country.

International Journal of Engineering Research and Science & Technology

ISSN 2319-5991 www.ijerst.com

Vol. 19, Issue 1, 2023

A look at the analysis makes it clear that NPAs are very tied to the economy. Trouble for banks results in the economy weakening since companies cannot secure the loans they need to advance.

Table 2: Hypothesis Testing (Correlation Analysis)

Variable 1	Variable 2	Pearson Correlation (r)	Significance (p-value)
Gross NPA %	GDP Growth %	-0.78	0.007
Gross NPA %	Credit Growth %	-0.81	0.004

Analysis of Hypothesis Testing:

In order to test the relationship, we looked at correlation between Non-Performing Assets (NPAs) and two main parts of the economy. GDP growth and credit growth. It enables us to recognize if bad debt is a factor in the country's economic growth.

Our results indicate that Gross NPAs are inversely related to GDP growth at -0.78. There is a strong negative link, so a rise in NPAs most often lowers the rate of GDP growth. The p-value we got is only 0.007 and that is lower than the critical value of 0.05. The significance of the result means that the relationship does not happen by chance.

We found that there is a strong negative connection between Gross NPAs and Credit Growth, amounting to -0.81. So, it reveals that banks lend out fewer funds when NPAs get higher. Since the p-value is less than 0.05 or even less than 0.004, this outcome can also be called statistically significant.

Conclusions Overall Results

From this study, Non-Performing Assets (NPAs) are clearly seen to be hurting India's economic growth. An increase in NPAs causes banks to lose money and to take extra care when providing loans. As a result, borrowing money becomes tougher for businesses trying

ISSN 2319-5991 www.ijerst.com
Vol. 19, Issue 1, 2023

to develop. For this reason, the economy expands at a slower rate. From 2013 to 2022, when NPAs went up, the GDP and credit growth both went down.

Research shows that a relationship exists between NPAs and economic growth, whereby the economy is weakened by high non-performing assets. The big problem for public sector banks is recovering bad loans which hurts their financial well-being and limits the help they can give to companies. A lack of credit for industry leads to slow industrial development, problems with building infrastructure and less creation of jobs, all key factors in growing India’s economy.

Because of this, both banks and the government should cooperate to decrease the level of NPAs. Using better loan assessment, stronger methods to get repaid and improved financial process may assist in handling NPAs. The Insolvency and Bankruptcy Code (IBC) started to deliver results, so government needs to step up efforts to keep things moving in the right direction.

With less NPAs, banks can extend credit to more individuals and groups without concern. Thanks to this, businesses will find it easier to borrow which will help them expand, create new employment and aid in the nation’s growth. For India’s economy to grow steadily and sustainably, the banking system needs to have low numbers of NPAs.

To sum up, resolving NPAs is vital for the health of banks and the overall economy alike. Future expansion of banks is reliant on efficient NPA management and is emphasized in this study that continuous updates and watchful eye are crucial.

Future Scope of the study:

The study examined how non-performing loans affect India’s economy, but many more topics can be studied going forward. There are ways to identify the details behind why businesses end up unable to pay back their loans. A further area to study could be the ways in which NPAs influence local industry or particular geographical regions. Future studies might investigate the effects of new government measures and adjustments in the banks on Non-Performing Assets. Additionally, studies can examine how better use of technology and loans can keep things from turning into an NPA. Making sure loans are given wisely will support

ISSN 2319-5991 www.ijerst.com
Vol. 19, Issue 1, 2023

the growth of the economy. All in all, learning NPAs from different viewpoints can help banks and the financial sector perform well and strengthen the economy.

References:

1. Agarwal, Ramesh. Non-Performing Assets and Their Impact on Indian Banking Sector. International Journal of Business and Management, vol. 7, no. 22, 2019, pp. 112-119.
2. Banerjee, Priya, and Manoj Sharma. Effect of NPAs on Credit Growth in Indian Banks. Journal of Financial Economics, vol. 15, no. 3, 2020, pp. 87-95.
3. Choudhary, Anil Kumar. The Role of NPAs in Economic Slowdown: An Indian Perspective. Indian Journal of Economics and Business, vol. 19, no. 4, 2021, pp. 56-70.
4. Gupta, Sunil. Managing Non-Performing Assets in Indian Public Sector Banks. Asian Journal of Banking and Finance, vol. 11, no. 1, 2022, pp. 23-34.
5. Singh, Rakesh, and Anjali Verma. Impact of NPAs on Indian Economy: Challenges and Solutions. Indian Journal of Finance, vol. 14, no. 6, 2020, pp. 45-53.
6. Tiwari, Sandeep. Non-Performing Assets and Their Effect on Indian Banking Growth. Journal of Indian Economic Research, vol. 17, no. 2, 2019, pp. 101-110.