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The INDIAN BANKING SECTOR, 2017: public policy challenges[[1]](#endnote-1)

Ganesh Kumar Nidugala and Abhay Pant wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Since 1991, the Indian banking sector had undergone significant changes, transforming from a highly regulated, predominantly state-owned industry to a more competitive industry with a sizeable presence of private sector banks. Despite reforms implemented by the government, the sector faced many challenges in 2017, the most important of which were high and rising non-performing assets (NPAs), particularly among the state-owned banks. What had caused NPAs in the Indian banking sector? What was the possible solution to the problem? Should India completely privatize the banking sector? These were some of the policy issues that confronted India’s central bank and policy-makers.

**BACKGROUND AND OVERVIEW OF THE INDIAN BANKING SECTOR[[2]](#endnote-2)**

Banks played a crucial role in the financial stability and economic development of a nation. Finance formed the lifeline of any business activity, and banks as financial intermediaries connected savers with borrowers, thus channelling funds from the surplus fund holders to the deficit ones.

The Indian banking sector received a boost when the central bank, the Reserve Bank of India (RBI), was established in 1935 under the *Reserve Bank of India Act, 1934* (RBI Act). Further, the Imperial Bank of India was taken over by the Government of India in 1955 and reconstituted as the State Bank of India. The nationalization of banks in 1969 and 1980 was a move to direct the banks toward fulfilling the social objectives of the government. The regulated measures of mandatory priority sector lending, administered interest rates, strict licensing norms, and high reserve requirements had placed banks under the strict control of the government, with the objective of fulfilling socio-economic development objectives. The RBI decided on the maximum deposit rates for savings and time deposits of banks. By the 1990s, public sector banks had about a 90 per cent share of the loans and advances of the commercial banks.

Following the balance of payments (BoP)[[3]](#endnote-3) crisis of 1991, India implemented wide-ranging structural reforms such as the de-licensing and de-reservation of several industries, the disinvestment of various public sector enterprises, the liberalization of foreign investment, and financial sector reforms. The banking sector reforms were a main element of the government’s reform agenda.

The Narasimham Committee on Banking Sector Reforms (1991 and 1998)[[4]](#endnote-4) was one of the most acknowledged committees for reforms of its kind in India. The reforms were initiated with the objective of improving the profitability, efficiency, and productivity of banks in India. The committee submitted its report, making several recommendations for achieving reform objectives. In 1991, the committee report focused on issues such as banking autonomy, a reduction in cash reserve ratio (CRR)[[5]](#endnote-5) and statutory liquidity ratio (SLR),[[6]](#endnote-6) and the deregulation of interest rates. The Narasimham Committee (1998) also focused on issues such as size, capital adequacy, asset classification, and provisioning norms in banks. The salient recommendations of the Narasimham Committee (1998) were as follows: new and higher norms for capital adequacy ratio (CAR)[[7]](#endnote-7) in banks; introducing 90-day income recognition norms in a phased manner; establishing a proper system for identifying and classifying NPAs, as well as setting up asset reconstruction companies to take over the bad loans of banks; accounting of risk-weights for market risk for bank stability; greater autonomy for public sector banks, with the government equity stake in nationalized banks reduced to 33 per cent; segregating the role of RBI as regulator and as owner in order to avoid any potential conflict of interest problems; and the entry of foreign banks for enhanced competition in the banking industry.[[8]](#endnote-8)

The early period of reforms witnessed the deregulation of administered interest rates, the reduction of high reserve requirements, and credit allocation to certain sectors. In 1991, Indian banks had to maintain 15 per cent of their deposits in CRR with the RBI and 38.5 per cent of their deposits as SLR. On CRR, banks did not earn any return, and on SLR, banks earned lower return when compared to other market instruments and loans. These ratios were gradually reduced and in October 2017, they stood at 4 per cent (CRR) and 19.5 per cent (SLR).

Gradually, competition was enhanced by allowing the entry of new private and foreign players with strong technical expertise. The public sector banks could raise additional capital from the financial markets with greater adherence to market discipline. The second part of reforms focused more on structural improvements with the introduction of minimum CAR, income recognition, asset classification norms, and better disclosure standards.

The RBI was established as the ultimate monetary authority; it regulated commercial banks, managed money supply, and performed a variety of other functions associated with the central bank. Scheduled banks included scheduled commercial banks and scheduled co-operative banks that were listed on the second schedule of the RBI Act.[[9]](#endnote-9) Non-scheduled banks were those banks that were not placed in the second schedule of the RBI Act, 1934. Scheduled co-operative banks comprised scheduled urban co-operative banks and scheduled state co-operative banks.[[10]](#endnote-10)

On the basis of ownership, scheduled commercial banks comprised public sector banks, private sector banks, foreign banks, small finance banks,[[11]](#endnote-11) and regional rural banks.[[12]](#endnote-12) Public sector banks included nationalized banks and the State Bank of India. In the case of public sector banks, the majority shareholder was the Government of India. Private sector banks were classified into new private sector banks and old private sector banks and they differed in terms of the scale and scope of their operations. New private sector banks were established after the reforms in 1991/92.

Foreign banks in India mainly operated as branches of banks established outside India.[[13]](#endnote-13) Regional rural banks mainly catered to the rural areas and had a very small share of around 3 per cent of total assets of the Indian banking sector.[[14]](#endnote-14)

**TROUBLE IN THE BANKING SECTOR**

Although the banking sector reforms in India had improved the banking system, the sector faced challenges in 2017. If not tackled properly, these issues could potentially culminate in a crisis that adversely affected the performance of the sector and the economic stability of the country. Despite banking sector reforms and banks’ conservative policies, NPAs and asset quality remained the biggest challenges for banks in India. In the words of Arvind Subramanian, chief economic advisor to the Government of India, the bad loans problem was the number one macroeconomic challenge for the Indian economy in 2017. He called it “the twin balance sheet problem”: on the one hand, the corporate sector was highly leveraged and over indebted, and, on the other hand, banks had a huge pile of stressed assets on their books of accounts.[[15]](#endnote-15)

The RBI occasionally published its concerns regarding surging NPAs in banks. In 2015, Shri S. S. Mundra, deputy governor of the RBI, dwelled upon the emerging challenges for the Indian banking sector. He identified asset quality, capital adequacy, liquidity coverage, foreign exchange exposures, human resource issues, priority sector lending, technology use, the protection and treatment of customers, balance sheet management, and risk management as the emerging areas of concern for commercial banks in India.[[16]](#endnote-16) In his speech at the Confederation of Indian Industry Banking and Finance Summit in 2016, Raghuram Rajan, former governor of the RBI, highlighted the issues and challenges facing the Indian banking sector. He pointed out that stressed assets, bank governance mechanisms, and liquidity were some of the major challenges for banks in India.[[17]](#endnote-17) In his inaugural address for the 2016 banking conference at Hyderabad, Mundra spoke about the emerging research themes in the Indian banking sector. He stressed risk management, governance, profitability, asset quality, and CAR as issues of concern for Indian banks. He also identified some areas in Indian banking that were under-researched, such as credit to agriculture, small and medium-sized enterprises, and private sector leverage.[[18]](#endnote-18) These challenges had to be met in an adequate and timely manner to enable the banking sector to support future economic growth.

Though these challenges affected the performance of banks in India, NPAs were by far the biggest threat to these banks. News articles on the state of bad loans in Indian banks and their possible consequences had become frequent. P. Vaidyanathan Iyer referred to the NPAs problem as a “ticking bank bomb.”[[19]](#endnote-19) Arvind Panagriya, vice-chairman of the Government of India’s think tank NITI Aayog, pointed out that the NPAs problem was “gigantic” and “the biggest challenge” before the government.[[20]](#endnote-20)

**the PERFORMANCE OF INDIAN BANKS**

The following performance indicators of Indian banks were useful in evaluating the sector and choosing stocks: return on equity (ROE), return on assets (ROA), credit deposit ratio, and net interest margin (NIM).[[21]](#endnote-21) ROA measured banks’ operating profit; ROE measured the rate of return on shareholders’ money; and NIM estimated the performance of banks in terms of net interest income.

The NIM was widely used as the crucial measure of banks’ performance because their main source of income was interest income (see Exhibits 1–3). The credit deposit ratio showed how much credit the bank gave out of its deposits. A higher value of this ratio indicated that the bank relied more on deposits for lending. A very high ratio indicated that the bank did not have enough liquidity to meet its contingencies (see Exhibit 4).

**TOTAL STRESSED ASSETS: TOXIC OR INNOCUOUS?[[22]](#endnote-22)**

Figures regarding gross NPAs and net NPAs[[23]](#endnote-23) did not highlight the true picture of stressed assets in banks (see Exhibits 5–7). Indian commercial banks had resorted to extensive restructuring of bad loans,[[24]](#endnote-24) which permitted the banks to show lower NPAs in their books of accounts. Banks had to maintain lower provisions for restructured standard advances.[[25]](#endnote-25)

After the asset quality review (AQR) in 2015, the RBI tightened the identification process of NPAs because the incorporation of restructured standard advances highlighted the true picture of stressed assets in banks. The asset classification of loans was not proper, and banks resorted to evergreening loan accounts. Many accounts that were substandard were treated as standard in bank books. (See Exhibit 8 for major changes made by the RBI in the NPA identification process.) Total stressed assets[[26]](#endnote-26) were those assets that failed to yield any income for the bank after considering the inclusion of restructured standard advances.

The RBI defined NPAs as the loans where

* the interest and/or principal amount remained overdue for a period of more than 90 days (in the case of term loans or bills received or discounted);
* the account remained out of order (in the case of overdraft or cash credit);
* the interest and/or principal remained overdue for two crop seasons (in the case of short-duration crops) and one crop season (in the case of long-duration crops);
* overdue payments (in the case of derivative transactions) remained unpaid for more than 90 days; and
* the liquidity facility had remained outstanding for a period of more than 90 days (in the case of securitization transactions).[[27]](#endnote-27)

NPAs were classified according to the definitions of substandard assets, doubtful assets, and loss assets. Substandard assets were assets that had remained NPAs for a period of less than or equal to 12 months. Doubtful assets were loans that had remained in the substandard category for 12 or more months. Loss assets were loans that had been recognized as loss, either by the bank, the auditors, or the RBI, provided the amount was not fully written off by the bank.

With NPAs, banks not only made income losses but also had to provide provisioning requirements. In the case of loss assets, banks had to make 100 per cent of provisions. For unsecured doubtful assets, again, the provisioning was 100 per cent, but for secured doubtful assets, provisioning varied between 25 per cent, 40 per cent, and 100 per cent, depending on the period for which the asset had remained doubtful.[[28]](#endnote-28) For substandard assets, the general provisioning requirement was 15 per cent of the outstanding amount and an additional 10 per cent for the unsecured exposures. The RBI guidelines also required provisioning for standard assets, ranging from 0.25 per cent, in the case of agricultural firms and micro-, small-, and medium-sized enterprises, to 1 per cent, in the case of real estate exposures (outstanding amount), based on the riskiness of the industry or activity (see Exhibit 9).[[29]](#endnote-29)

**POST-2008 MACROECONOMIC SCENARIO IN INDIA**

Although the financial crisis of 2008 originated as a subprime crisis in the United States, it became a contagion that quickly spread across the globe. India did remarkably well in the pre-crisis period, with an impressive growth rate of 9 per cent (2003–2008). This did not last long because the impressive growth trajectory was broken by the global crisis.[[30]](#endnote-30)

Though India survived the crisis with its relatively robust banking system, the impact of the crisis was felt on the Indian economy nevertheless. The gross domestic product (GDP)[[31]](#endnote-31) growth rate of India dropped from 9.3 per cent in 2007/08 to 6.7 per cent in 2008/09 (see Exhibit 10). In March 2008, the Indian rupee depreciated from ₹39.00[[32]](#endnote-32) per U.S. dollar to ₹51.18. The Index of Industrial Production also experienced spikes and remained volatile between 2008 and 2009. To manage domestic and foreign liquidity demand, the RBI had cut key policy rates like the repo rate[[33]](#endnote-33) and CRR. From October 2008 to April 2009, the repo rate was reduced from 9 per cent to 4.75 per cent, and the CRR was reduced from 9 per cent to 5 per cent.[[34]](#endnote-34) To stop the decline of the rupee, the RBI had increased interest rates on foreign currency deposits made by non-resident Indians, and relaxed external commercial borrowing norms for corporations and non-banking financial companies.[[35]](#endnote-35)

Although growth recovery was in process, inflation rose to double digits in 2009 and 2010 and remained high up to 2013/14 (see Exhibit 10). The rising inflation was a result of multiple factors, such as a mounting fiscal deficit,[[36]](#endnote-36) supply side constraints in agriculture, a poor investment climate, and political scandals. The RBI had a challenging task of lowering inflation, and it took a series of measures in the form of monetary tightening such as increasing the CRR and the repo rate. The repo rate was increased 13 times—from 4.75 per cent to 8.5 percent from March 2010 to October 2011.[[37]](#endnote-37) With high inflation, industrialists and critics blamed the RBI’s textbook way of dealing with the inflation. They stated that inflation was a result of supply-side constraints and that any demand-side policy measure might be ineffective in controlling it; demand-side policies would also lower growth due to short-run trade-off.[[38]](#endnote-38)

India’s BoP position also worsened from 2007/08 to 2012/13, with deterioration in its current account deficit.[[39]](#endnote-39) In 2011/12, India experienced an overall BoP deficit, which resulted in the loss of foreign exchange reserves. A rising current account deficit was matched with non-foreign direct investment capital flows, which were deemed risky and could flow out of the country at any time. India was facing multiple problems such as rising inflation, low growth, and a current account deficit. Economic growth showed a slowdown from 2011 to 2012 (see Exhibit 10). One of the causes of high inflation was the government’s high fiscal deficit, which was affecting the competitiveness of India’s exports, thus leading to the BoP current account deficit.[[40]](#endnote-40)

In 2012/13, the RBI intervened in the foreign exchange market and took a series of measures: it tightened liquidity,[[41]](#endnote-41) raised interest rates,[[42]](#endnote-42) and curbed certain types of capital outflows. The government also raised the tariff on gold imports to bring down the current account deficit.[[43]](#endnote-43) Poor economic performance took a toll on the banking sector’s performance as borrowers faced difficulty in repaying loans.

**STRESSED ASSETS: THE ROAD TO THE BAD BANK**

Stressed assets in Indian commercial banks were a result of bank-specific and macroeconomic factors. Rajan said high NPAs in banks were a result of global and domestic economic slowdown, statutory delays in project approval, aggressive lending during financial upturn, laxity in credit-risk appraisal, wilful defaults, loan frauds, and corruption in banks’ lending practices.[[44]](#endnote-44) According to Charan Singh, former RBI Chair Professor at IIM Bangalore, the high NPAs in public sector banks were the result of inefficiencies in the credit allocation and recovery mechanisms of banks.[[45]](#endnote-45) Kalpana Morparia, chief executive officer of JP Morgan India, remarked that high NPAs in public sector banks were a result of exposure to projects these banks had invested in. When these projects exceeded time and cost budgets due to external factors, servicing debt became difficult, and, hence, restructuring was required.[[46]](#endnote-46) According to the government, the high NPAs in public sector banks were a result of several factors, including slothful domestic growth in the past, slow recovery of the global economy, and uncertainty in the global markets.[[47]](#endnote-47)

According to Ram Mohan, professor at the Indian Institute of Management Ahmedabad, high NPAs in public sector banks were a result of the nature of loans made by public sector banks and the many shocks they had been exposed to. Incompetence and corruption could partially explain surging NPAs in banks. Almost half of the stressed assets were in sectors like infrastructure, iron and steel, mining, textiles, and aviation. The infrastructure boom of 2004–2008 was led by public sector banks, and they had greater exposure to these sectors. Also, public sector banks were facing the lagged impact of the global financial crisis of 2008, which had affected banks worldwide.[[48]](#endnote-48) A popular press article highlighting the overview of a report by Viral Acharya, deputy governor at the RBI, mentioned that high NPAs in public sector banks were a result of their lending at non-optimal conditions to non-viable enterprises, welfare schemes, and lending to other public enterprises.[[49]](#endnote-49)

In a study that examined the determinants of NPAs in the Indian banking sector, construction expenditure, stock market index, GDP, foreign exchange reserves, and growth rate in per capita income were found to have had an inverse relationship with bank NPAs.[[50]](#endnote-50) Another study investigated the determinants of stressed assets in Indian commercial banks from 2003/04 to 2013/14. An increase in past credit growth, excessive lending by banks, poor screening, and adverse selection problems had led to an increase in the banks’ current stressed assets.[[51]](#endnote-51)

It was feared that the demonetization move of 2016[[52]](#endnote-52) might also lead to an increase in NPAs: demonetization could lead to a liquidity crisis, which might affect the debt servicing capacity of small and medium-sized enterprises. Along with a delay in outstanding investment projects, this could result in increasing bank NPAs.[[53]](#endnote-53)

Robust economic growth and performance could take care of the rising NPA problem in Indian banks. A necessary prerequisite for this was greater public and private investment.[[54]](#endnote-54) In his study on stressed assets in Indian commercial banks, Amaresh Samantaraya highlighted that governance structure in banks may have played a crucial role in rising NPAs in banks.[[55]](#endnote-55) A popular press article pointed out that in the long-term structural issues like appraisal standards, credit delivery mechanisms and bank governance needed to be addressed to tackle the festering asset quality crisis in Indian public sector banks.[[56]](#endnote-56)

Crony capitalism and political interference may have also influenced rising stressed assets in banks. According to Saurabh Tripathi, senior partner and managing director at the Boston Consulting Group, high NPAs were a result of economic governance. To put the blame entirely on public sector banks was to absolve the government and its political interference. The primary cause was not the public sector banks but the constraints and influence under which they operated.[[57]](#endnote-57) The political interference forced banks to lend to unviable business ventures, thus increasing their non-performing loans. The government pushed loans out of banks to the corporate business houses, making banks’ balance sheets red with rising bad loans.[[58]](#endnote-58)

The executive director of the United Bank of India, Sanjay Arya, remarked that political interference was a challenge for recovery. He said that the bank was under pressure to give loans to small farmers and businesspeople in eastern states.[[59]](#endnote-59) High stressed assets in public sector banks were also a result of political meddling, where the government forced these banks to lend to the priority sector and fulfill certain social and development obligations. In the words of Mythili Bhusnurmath of the *Economic Times*, “The basic underlying cause for such a high [NPAs] ratio in the public sector banks is government ownership and political interference, and that remained unaddressed.”[[60]](#endnote-60)

The asset quality crisis had plagued the performance of commercial banks in India. The situation was worse for public sector banks, where surging bad loans had eroded the profitability, efficiency, and productivity of these government-controlled units. Policy-makers, regulators, and bank managers looked for measures that could curb the rise in stressed assets in these banks because stressed assets had strong implications for the nation’s macroeconomic and financial stability.

Indian commercial banks with high stressed assets, capital crunch, low profitability, and so on had contributed to what might have been termed “banking sector paralysis.” In the past, several measures were proposed to tackle this massive problem in Indian banks. Some of the crucial measures were privatizing public sector banks, merging weaker banks with the stronger banks, recapitalizing banks, and setting up a bad bank. It was not surprising that the Government of India was not ready to give up its stake in the public sector banks, and so it preferred the consolidation route. Rajan said that the merger of an unhealthy bank with a healthy bank might create trouble for the healthy bank by transferring the risk of the weak bank onto the strong bank’s balance sheet, adversely affecting the books of the strong bank.[[61]](#endnote-61) Mohan argued that consolidation might not necessarily lead to strong banks. If all the public sector banks were facing stress, consolidation might only add to their problems. Further, human resource issues might aggravate the problem. Rajan also mentioned that privatizing banks was not an insurance and that taxpayers would not have to pay the bills for the failed banks.[[62]](#endnote-62)

According to a popular press article, the privatization of banks was not the answer to any kind of regulatory weaknesses in banks and would only trade one kind of management failure, like frauds, for another, such as mis-selling products.[[63]](#endnote-63) Without robust regulatory oversight, controls, and improved governance, the privatization of banks would not be effective in reducing fraud and undue risk. By contrast, the proponents of privatization argued that it made management more accountable to markets, induced competition in the banking sector, reduced the cost of intermediation, and bolstered bank profitability.[[64]](#endnote-64)

Banks crippled with high NPAs could face capital crunch because their capital might be eroded. If this happened, this could mean that the government might have to recapitalize the banks. The 2015 AQR by the RBI revealed a huge increase in bank NPAs. In 2017/18, a federal budget allocation of ₹100 billion was made with a provision for additional necessary funds. In 2016/17, ₹250 billion was allocated for the recapitalization of banks. The recapitalization of banks would put constrains on the fiscal deficit of the government. Deepak Parekh, chairman of the Housing Development Finance Corporation, said that the RBI’s “sledgehammer” approach to containing NPAs might be very painful because it might lead to capital crunch in banks.[[65]](#endnote-65)

The RBI advocated for banks to recognize NPAs more accurately and to identify restructured standard advances as problem assets. An idea floating around was the establishment of a bad bank that could absorb the rising NPAs of public sector banks. It was like a bank selling its NPAs at a discounted price to an asset reconstruction company. The core idea was that a bad bank might focus on loan recovery, for which public sector banks need not bother so they could focus on new business and profitable opportunities.

Viral Acharya, deputy governor of the RBI, said that the bad bank solution was what India needed to prevent the bad loan wound from festering further.[[66]](#endnote-66) However, Rajan was against the idea of setting up a bad bank for surging NPAs in weak banks; rather, he felt that banks should recover their dues themselves. He also pointed out that cases where loans were mispriced and transferred to a bad bank could create further issues.[[67]](#endnote-67)

Another solution mooted by some policy experts was creation of stressed asset funds. The government believed that stressed asset funds might be similar to a bad bank–like structure—except in this case, the distressed assets would be bought instead of directly transferred. The State Bank of India and Brookfield Asset Management set up a joint venture for a stressed asset management fund in India.[[68]](#endnote-68) Investors like Piramal Enterprises, Bain Capital, and Apollo Global Management were already in line to purchase the stressed assets of distressed companies.[[69]](#endnote-69)

The success or failure of these measures could be debated and would only be known after they had been implemented. The merger process, which started with the associate banks merging with the State Bank of India, was completed in April 2017.[[70]](#endnote-70)

**THE ROAD AHEAD**

India’s GDP growth rate increased from 7.2 per cent in 2014/15 to 7.6 per cent in 2015/16. Due to improvements in its macroeconomic performance, India was one of the fastest growing major economies, with promising long-term growth prospects.[[71]](#endnote-71) Consumer price index inflation declined from 5.9 per cent in 2014/15 to 4.8 per cent in April–December 2015.[[72]](#endnote-72) However, although the Indian economy had recovered since 2014/15, the problems of the banking sector continued to constrain credit growth. One of the impediments to economic growth in 2016/17 was poor bank credit growth (see Exhibit 11), which was partly due to the high NPAs (see Exhibit 12).

It was quite clear that the asset quality crisis was one of the biggest challenges in the Indian banking sector. The AQR by the RBI made it clear that the problem was much larger in magnitude than originally thought because commercial banks had recorded extensive losses due to surging bad loans and their huge provisioning requirements. It was felt that the treatment of the asset quality crisis should be at the preventive level rather than at the curative level. The NPAs problem was deep-rooted, complex, and the outcome of a combination of political, bank-specific, and macroeconomic factors.

An important measure initiated was the passing of the *Insolvency and Bankruptcy Code, 2016* (IBC), which discussed the ways that creditors could recover their claims from firms that had gone bankrupt. The IBC introduced a uniform insolvency code for companies, partnership firms, and individuals. It also had provisions for insolvency professionals, with the Insolvency and Bankruptcy Board of India as the regulatory body. Mohan pointed out that the code could do little about the problem of NPAs in banks; at best, the IBC could address future NPAs.[[73]](#endnote-73)

Another important debate surrounded disclosing the names of defaulters. Surging NPAs and the default on bad loans by big businesses and corporate houses was an important issue for the Supreme Court at regular intervals in 2016. The Supreme Court directed the RBI to disclose the names of defaulters with loans over ₹5 million.[[74]](#endnote-74) The question that remained unanswered was whether the list of bank defaulters should be made public.

Although the Supreme Court was in favour of making the list public, the RBI did not support the idea. The surging bad loans might be the result of several factors, such as a corporation’s bad business and investment decisions; a slump in the domestic or global economy; bureaucratic hassles, with delays in regulatory clearances; inadequate skills of lenders in project appraisal and risk management; or political interference. Naming the defaulters would affect the lending of funds to businesses and discourage entrepreneurship.[[75]](#endnote-75) Further, the banks might also become overcautious in terms of lending; hence, the disclosure of defaulters’ names might not be a viable solution to the NPA problem.

The government, policy-makers, analysts, and experts debated the NPA problem that confronted the sector in 2017. What had gone wrong with the Indian banking sector? Was the worst already behind it? What were possible solutions to the problem of NPAs? Was the privatization of state-owned banks a solution to the recurring problem of NPAs?

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**EXHIBIT 1: RETURN ON EQUITY OF INDIAN COMMERCIAL BANKS (%)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **State Bank of India & Associates** | **Nationalized Banks** | **Public Sector Banks** | **Private Sector Banks** | **Foreign Banks** | **All Scheduled Commercial Banks** |
| 2014 | 10.03 | 7.78 | 8.48 | 16.22 | 9.03 | 10.69 |
| 2015 | 10.56 | 6.44 | 7.76 | 15.74 | 10.24 | 10.42 |
| 2016 | 6.78 | −8.52 | −3.47 | 13.81 | 8.00 | 3.59 |

Note: All figures are for the financial year April 1 to March 31.

Source: Database on Indian Economy, Reserve Bank of India, accessed January 9, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

**EXHIBIT 2: RETURN ON ASSETS OF INDIAN COMMERCIAL BANKS (%)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **State Bank of India & Associates** | **Nationalized Banks** | **Public Sector Banks** | **Private Sector Banks** | **Foreign Banks** | **All Scheduled Commercial Banks** |
| 2014 | 0.63 | 0.45 | 0.50 | 1.65 | 1.54 | 0.81 |
| 2015 | 0.66 | 0.37 | 0.46 | 1.68 | 1.84 | 0.81 |
| 2016 | 0.42 | −0.49 | −0.20 | 1.50 | 1.45 | 0.31 |

Note: All figures are for the financial year April 1 to March 31.

Source: Database on Indian Economy, Reserve Bank of India, accessed January 9, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

**EXHIBIT 3: NET INTEREST MARGIN OF INDIAN COMMERCIAL BANKS (%)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **State Bank of India & Associates** | **Nationalized Banks** | **Public Sector Banks** | **Private Sector Banks** | **Foreign Banks** | **All Scheduled Commercial Banks** |
| 2014 | 2.87 | 2.28 | 2.45 | 3.31 | 3.54 | 2.70 |
| 2015 | 2.81 | 2.15 | 2.35 | 3.37 | 3.54 | 2.64 |
| 2016 | 2.64 | 2.06 | 2.23 | 3.45 | 3.60 | 2.60 |

Note: All figures are for the financial year April 1 to March 31.

Source: Database on Indian Economy, Reserve Bank of India, accessed January 9, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

**EXHIBIT 4: CREDIT DEPOSIT RATIO OF INDIAN COMMERCIAL BANKS (%)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **State Bank of India & Associates** | **Nationalized Banks** | **Public Sector Banks** | **Private Sector Banks** | **Foreign Banks** | **All Scheduled Commercial Banks** |
| 2014 | 85.57 | 74.29 | 77.42 | 84.37 | 82.60 | 78.93 |
| 2015 | 82.07 | 73.77 | 76.12 | 86.36 | 80.85 | 78.32 |
| 2016 | 82.54 | 71.38 | 74.72 | 90.30 | 79.24 | 78.24 |

Note: All figures are for the financial year April 1 to March 31.

Source: Database on Indian Economy, Reserve Bank of India, accessed January 9, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

**EXHIBIT 5: GROSS NPAs, NET NPAs, AND TOTAL STRESSED ASSETS OF INDIAN COMMERCIAL BANKS (% OF ADVANCES)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Gross NPAs** | **Net NPAs** | **Total Stressed Assets** |
| 2014 | 4.1 | 2.2 | 10.0 |
| 2015 | 4.6 | 2.5 | 11.1 |
| 2016 | 7.6 | 4.6 | 11.5 |

Note: All figures are for the financial year April 1 to March 31; NPAs = non-performing assets.

Sources: “Bank NPAs May Hit 8.5% by March,” *Hindu*, June 28, 2016, www.thehindu.com/business/Economy/Bank-NPAs-may-hit-8.5-by-March/article14406693.ece; Alvarez & Marsal, *Outlook for Stressed Assets Market in India*, 2014, accessed January 12, 2017, www.alvarezandmarsal.com/sites/default/files/sidebar-callouts/india-stressed-assets.pdf.

**EXHIBIT 6: GROSS NPAs TO GROSS ADVANCES (%)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **State Bank of India & Associates** | **Nationalized Banks** | **Private Sector Banks** | **Foreign Banks** | **All Scheduled Commercial Banks** |
| 2014 | 4.96 | 4.09 | 1.78 | 3.86 | 3.83 |
| 2015 | 4.28 | 5.26 | 2.10 | 3.20 | 4.27 |
| 2016 | 6.40 | 10.69 | 2.83 | 4.20 | 7.49 |

Note: All figures are for the financial year April 1 to March 31; NPAs = non-performing assets.

Source: Database on Indian Economy, Reserve Bank of India, accessed January 9, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

**EXHIBIT 7: NET NPAs TO NET ADVANCES (%)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Public Sector Banks** | **Private Sector Banks** | **Foreign Banks** | **All Scheduled Commercial Banks** |
| 2014 | 2.56 | 0.65 | 1.10 | 2.10 |
| 2015 | 2.90 | 0.89 | 0.50 | 2.40 |
| 2016 | 5.75 | 1.38 | 0.69 | 4.60 |

Note: All figures are for the financial year April 1 to March 31; NPAs = non-performing assets.

Sources: Indian Banks’ Association (website), accessed January 12, 2017, www.iba.org.in/; ““Bank NPAs May Hit 8.5% by March,” *Hindu*, June 28, 2016, www.thehindu.com/business/Economy/Bank-NPAs-may-hit-8.5-by-March/article14406693.ece.

**EXHIBIT 8: CHANGES IN NPA IDENTIFICATION PROCESS, per AQR 2015**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Previous Norm** | **Revised Norm (per AQR 2015)** |
| Stressed Assets/NPAs | Restructured standard advances were treated differently from problem assets, and banks resorted to the evergreening of accounts. The same loan exposure was classified as good by one bank and bad by another. | Under AQR, banks reported a higher level of stressed assets and were hiding them under the practice of forbearance. Gross NPAs plus restructured standard advances to gross advances highlighted the true picture of total stressed assets in banks. Banks were postponing NPAs recognition, and AQR forced banks to recognize restructured standard advances as problem assets. Banks had to increase provisioning for these restructured standard accounts. |
| Loss Assets | 100% | 100% |
| Doubtful Assets | 40% | 40% |
| Substandard Assets | 15%  (additional 10% for unsecured exposures) | 15% |

Note: NPAs = non-performing assets; AQR = asset quality review. AQR forced banks to recognize restructured advances as NPAs because these restructured advances were a kind of problem loan. This resulted in a large amount of stressed assets on banks’ balance sheets.

Source: Madhura Karnik, “Indian Banks Have a Lot More Bad Loans than They Initially Thought,” Quartz India, June 29, 2016, accessed September 24, 2019, https://qz.com/718650/indian-banks-have-a-lot-more-bad-loans-than-they-initially-thought; Amaresh Samantaraya, “Procyclical Credit Growth and Bank NPAs in India,” *Economic and Political Weekly* 51, no. 12 (2016); Manojit Saha, “Asset Quality Review and Its Impact on Banks,” *Hindu*, July 17, 2016, accessed July 7, 2019, www.thehindu.com/business/Industry/Asset-Quality-Review-and-its-impact-on-banks/article14494282.ece; Manojit Saha, “Extend Restructuring Leeway till April 2016: Banks to RBI,” *Business Standard*, October 15, 2014, accessed July 4, 2019, www.business-standard.com/article/finance/extend-restructuring-leeway-till-april-2016-banks-to-rbi-114101500011\_1.html.

**EXHIBIT 9: Bank RESTRUCTURED ADVANCES, by Group (in ₹ MILLION)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Bank** | **Loans Subjected to Restructuring** | | | | **Corporate Debt Restructured** | | | | |
| **Standard Assets during the Year** | **Substandard Assets during the Year** | **Doubtful Assets during the Year** | **Total 1**  **[(1)+(2)+(3)]** | **Standard Assets during the Year** | **Substandard Assets during the Year** | **Doubtful Assets during the Year** | **Total 2**  **[(5)+(6)+(7)]** | **Total 3**  **[(4)+(8)]** |
| **(1)** | **(2)** | **(3)** | **(4)** | **(5)** | **(6)** | **(7)** | **(8)** | **(9)** |
| 2016 | State Bank of India & Its Associates | 367,135 | 17,129 | 127,471 | 511,735 | 248,750 | 22,012 | 163,204 | 433,967 | 945,702 |
| 2016 | Nationalized Banks | 1,240,439 | 245,564 | 386,321 | 1,872,324 | 518,044 | 186,287 | 398,396 | 1102,727 | 2,975,051 |
| 2016 | Private Sector Banks | 171,399 | 6,154 | 64,072 | 241,625 | 140,898 | 5,353 | 82,719 | 228,970 | 470,595 |
| 2016 | Foreign Banks | 9,929 | 1,957 | 5,150 | 17,035 | 1,859 | 0 | 11,968 | 13,827 | 30,862 |
| 2015 | State Bank of India & Its Associates | 443,401 | 16,790 | 86,841 | 547,031 | 427,883 | 27,280 | 64,054 | 519,217 | 1,066,248 |
| 2015 | Nationalized Banks | 2,139,829 | 111,546 | 167,127 | 2,418,502 | 1,002,372 | 129,719 | 151,687 | 1,283,778 | 3,702,280 |
| 2015 | Private Sector Banks | 171,112 | 10,234 | 25,901 | 207,248 | 198,494 | 5,354 | 50,698 | 254,546 | 461,794 |
| 2015 | Foreign Banks | 534 | 1,720 | 3,754 | 6,008 | 3,136 | 0 | 6,626 | 9,762 | 15,770 |
| 2014 | State Bank of India & Its Associates | 316,683 | 30,568 | 82,724 | 429,974 | 351,455 | 14,216 | 69,238 | 434,909 | 864,884 |
| 2014 | Nationalized Banks | 1,735,287 | 100,519 | 127,800 | 1,963,606 | 856,473 | 67,477 | 55,008 | 978,958 | 2,942,564 |
| 2014 | Private Sector Banks | 128,439 | 3,582 | 19,859 | 151,880 | 172,005 | 1,678 | 14,051 | 187,734 | 339,613 |
| 2014 | Foreign Banks | 787 | 376 | 4,038 | 5,200 | 2,048 | 249 | 4,719 | 7,016 | 12,216 |

Note: All figures are for the financial year April 1 to March 31; ₹ = INR = Indian rupees.

Source: Database on Indian Economy, Reserve Bank of India, accessed January 14, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

**EXHIBIT 10: ANNUAL PERCENTAGE CHANGE IN KEY ECONOMIC INDICATORS**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Indicator** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| Real GDP growth | 9.32 | 6.72 | 8.59 | 9.32 | 6.21 | 5.60 | 6.60 | 7.20 | 7.60 |
| Growth rate of agriculture & allied sectors | 5.80 | 0.09 | 0.81 | 7.94 | 3.65 | 1.50 | 4.20 | −0.20 | 1.10 |
| Growth rate of industry | 9.67 | 4.44 | 9.16 | 9.16 | 3.49 | 3.60 | 5.00 | 5.90 | 7.40 |
| Growth rate of services | 10.27 | 9.98 | 10.50 | 9.75 | 8.20 | 8.10 | 7.80 | 10.30 | 8.90 |
| Inflation (CPI based) | 6.20 | 9.10 | 12.40 | 10.40 | 8.40 | 10.20 | 9.50 | 5.90 | 4.90 |
| Growth of M3 (broad money) | 21.40 | 19.30 | 16.80 | 16.00 | 15.60 | 13.60 | 13.40 | 10.80 | 11.00 |
| Growth of imports (in USD) | 35.50 | 20.70 | −5.00 | 28.20 | 32.30 | 0.30 | −8.30 | −0.50 | −15.50 |
| Growth of exports (in USD) | 29.00 | 13.60 | −3.50 | 40.50 | 21.30 | −1.80 | 4.70 | −1.30 | −17.60 |
| Fiscal deficit (% of GDP) | 2.70 | 6.00 | 5.20 | 4.80 | 5.80 | 4.90 | 4.40 | 4.10 | 3.90 |
| Repo rate (end of March) | 7.75 | 5.00 | 5.00 | 6.75 | 8.50 | 7.50 | 8.00 | 7.50 | 6.75 |
| Central government debt (% of GDP) | 55.10 | 48.52 | 51.40 | 53.47 | 38.93 | 42.72 | 44.98 | 46.78 | 36.61 |
| Gross domestic savings (% of GDP) | 36.82 | 32.02 | 33.69 | 34.02 | 30.81 | 33.80 | 33.00 | 33.00 | 29.83 |
| GFCF (% of GDP) | 38.11 | 34.30 | 36.48 | 36.84 | 35.00 | 38.60 | 34.70 | 34.20 | 29.60 |

Note: All figures are for the financial year April 1 to March 31; GDP = gross domestic product; CPI = consumer price index; GFCF = gross fixed capital formation; M3 = all physical currency, short-term deposits in banks and certain money market funds, and long-term deposits.

Source: “Union Budget,” National Informatics Centre, Ministry of Finance, accessed February 2, 2017, www.indiabudget.gov.in; “Database on Indian Economy,” Reserve Bank of India, accessed February 2, 2017, http://dbie.rbi.org.in/; Government of India, Open Government Data (OGD) Platform India (website), accessed February 2, 2017, https://data.gov.in.

**EXHIBIT 11: GROSS BANK CREDIT GROWTH (%)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Credit Growth** | **Year** | **Credit Growth** |
| March 23, 2012–March 22, 2013 | 13.56 | December 28, 2012–December 27, 2013 | 14.52 |
| March 22, 2013–March 21, 2014 | 13.22 | December 27, 2013–December 26, 2014 | 9.55 |
| March 21, 2014–March 20, 2015 | 8.57 | December 26, 2014–December 25, 2015 | 8.43 |
| March 20, 2015–March 18, 2016 | 8.97 | December 25, 2015–December 23, 2016 | 3.30 |
| March 18, 2016–March 31, 2017 | 7.36 |  |  |

Source: “Data on Sectoral Deployment of Bank Credit,” Reserve Bank of India, accessed January 17, 2017, www.rbi.org.in/Scripts/Data\_Sectoral\_Deployment.aspx.

**EXHIBIT 12: GROSS NPAs TO GROSS ADVANCES and NET NPAs TO NET ADVANCES FOR MAJOR PUBLIC AND PRIVATE SECTOR BANKS (%)**

**Private Sector Banks**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **ICICI Bank** | | **HDFC Bank** | | **Axis Bank** | |
| **Year** | **GNPAs** | **NNPAs** | **GNPAs** | **NNPAs** | **GNPAs** | **NNPAs** |
| 2014 | 3.02 | 0.97 | 0.91 | 0.27 | 1.29 | 0.44 |
| 2015 | 3.78 | 1.61 | 0.88 | 0.24 | 1.36 | 0.46 |
| 2016 | 5.82 | 2.97 | 0.91 | 0.28 | 1.70 | 0.74 |

Exhibit 12 (continued)

**Public Sector Banks**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **State Bank of India** | | **Punjab National Bank** | | **Bank of Baroda** | |
| **Year** | **GNPAs** | **NNPAs** | **GNPAs** | **NNPAs** | **GNPAs** | **NNPAs** |
| 2014 | 4.94 | 2.57 | 5.25 | 2.83 | 2.94 | 1.52 |
| 2015 | 4.24 | 2.12 | 6.54 | 4.04 | 3.71 | 1.88 |
| 2016 | 6.50 | 3.81 | 12.89 | 8.59 | 9.99 | 5.05 |

Note: All figures are for the financial year April 1 to March 31; NPAs = non-performing assets; GNPAs = gross non-performing assets; NNPAs = net non-performing assets.

Source: Database on Indian Economy, Reserve Bank of India, accessed January 12, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics; Database on Indian Economy, Reserve Bank of India, accessed January 12, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspective presented in this case are not necessarily those of the Government of India or any of its employees. This case was awarded an honourable mention in the ISB-Ivey Global Case Competition 2017. The prize was sponsored by ISB. [↑](#endnote-ref-1)
2. Unless otherwise indicated, the source for this section is Barbara Casu, Alessandra Ferrari, and Tianshu Zhao, “Regulatory Reform and Productivity Change in Indian Banking,” *Review of Economics and Statistics* 95, no. 3 (2013): 1066–1077; “Committee on Banking Sector Reforms (Narasimham Committee II)—Action Taken on the Recommendations,” Reserve Bank of India, October 31, 2001, accessed July 3, 2017, https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/24157.pdf. [↑](#endnote-ref-2)
3. The BoP provided a systematic record of a nation’s transactions with the rest of the world. [↑](#endnote-ref-3)
4. Casu, Ferrari, and Zhao, op. cit. [↑](#endnote-ref-4)
5. The CRR was the cash deposited by banks with the RBI. [↑](#endnote-ref-5)
6. The SLR consisted of government securities, cash, gold, and other designated securities. [↑](#endnote-ref-6)
7. The CAR was computed by dividing a bank’s capital with aggregated risk-weighted assets for credit risk, market risk, and operational risk. [↑](#endnote-ref-7)
8. “Committee on Banking Sector Reforms (Narasimham Committee II)—Action Taken on the Recommendations,” op. cit. [↑](#endnote-ref-8)
9. “Database on Indian Economy,” Reserve Bank of India, accessed January 9, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications. [↑](#endnote-ref-9)
10. Ibid. [↑](#endnote-ref-10)
11. Small finance banks were banks that provided financial services to people who were not able to access traditional banks. [↑](#endnote-ref-11)
12. “Database on Indian Economy,” op. cit. [↑](#endnote-ref-12)
13. Jayati Sarkar and Subrata Sarkar, “Bank Ownership, Board Characteristics and Performance: Evidence from Commercial Banks in India,” *International Journal of Financial Studies* 6, no. 7, (2018): 1–29. [↑](#endnote-ref-13)
14. Biswa Swarup Misra, “The Performance of Regional Rural Banks (RRBs) in India: Has Past Anything to Suggest for Future?” *Reserve Bank of India Occasional Papers* 27, no. 1 (2006): 89-118. [↑](#endnote-ref-14)
15. “NPA Issue Is India’s No.1 Macroeconomic Challenge: Arvind Subramanian,” Money Control, March 29, 2017, accessed September 24, 2019, www.moneycontrol.com/news/business/economy/npa-issue-is-indias-no-1-macroeconomic-challenge-arvind-subramanian-2248985.html. [↑](#endnote-ref-15)
16. Shri S. S. Mundra, “Indian Business Sector: Emerging Challenges and Way Forward” (speech, Reserve Bank of India, Bangalore, India, April 29, 2015), www.rbi.org.in/Scripts/BS\_SpeechesView.aspx?Id=955. [↑](#endnote-ref-16)
17. Raghuram Rajan, “Issues in Banking Today” (speech, Reserve Bank of India, Mumbai, India, February 11, 2016) accessed July 3, 2019, https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/CIIL11021609A8EB38FFF444DD8461EC3F244FEFA5.PDF. [↑](#endnote-ref-17)
18. Shri S. S. Mundra “Research Imperatives for the Indian Banking Sector” (speech, Reserve Bank of India, January 29, 2016), accessed September 24, 2019, https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/ISB0116C7FBEC67580A4825994D0C42E9605BA7.PDF. [↑](#endnote-ref-18)
19. P. Vaidyanathan Iyer, “Govt Plans to Defuse Ticking Bank Bomb,” *Indian Express*, February 1, 2016, accessed July 3, 2019, http://indianexpress.com/article/business/economy/govt-plans-to-defuse-ticking-bank-bomb. [↑](#endnote-ref-19)
20. ENS Economic Bureau, “NPA Challenge the Biggest before Centre: Arvind Panagariya,” *Indian Express*, April 5, 2016, accessed September 24, 2019, http://indianexpress.com/article/business/banking-and-finance/npa-challenge-the-biggest-before-centre-arvind-panagariya. [↑](#endnote-ref-20)
21. ROE was obtained as the ratio of net profit to average equity (capital plus reserves and surplus); ROA was the ratio of net profit to average assets; credit deposit ratio was the ratio of advances to deposits; and net interest margin was the ratio of net interest income to average total assets. All these ratios were expressed in percentages, and for the table in the case exhibits, ratios have been taken by group. ROA, for example, has been estimated as the weighted average of the ROA of individual banks, with weights being proportional to the total assets of banks as a percentage of the total assets of all the banks in a group. [↑](#endnote-ref-21)
22. Unless otherwise indicated, the source for this section is “Master Circular—Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances,” Reserve Bank of India, July 1, 2015, accessed July 3, 2019, www.rbi.org.in/Scripts/BS\_ViewMasCirculardetails.aspx?id=9908#mc1; Amaresh Samantaraya, “Procyclical Credit Growth and Bank NPAs in India,” *Economic and Political Weekly* 51, no. 12 (2016). [↑](#endnote-ref-22)
23. Gross NPAs referred to the principal dues of NPAs plus funded interest term loans where the contra credit is held in a sundries account (interest capitalization − restructured accounts), with regard to NPA accounts. Net NPAs = Gross NPA − (balance in interest suspense account + deposit insurance and credit guarantee corporation/export credit guarantee corporation of India claims received and held pending adjustment + part payment received and kept in suspense account + total provisions held). [↑](#endnote-ref-23)
24. Restructuring was the process whereby banks granted concessions to a borrower that it would not otherwise consider. The process would typically involve modifications of the terms of advances or securities. [↑](#endnote-ref-24)
25. The provisioning for restructured standard accounts increased from between 2 to 2.75 per cent in November 2012 to 5 per cent in June 2013. [↑](#endnote-ref-25)
26. Total stressed assets were computed as the ratio of gross NPAs plus restructured standard advances to gross advances. [↑](#endnote-ref-26)
27. “Master Circular—Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances,” op. cit. [↑](#endnote-ref-27)
28. Samantaraya, op. cit. [↑](#endnote-ref-28)
29. Ibid. [↑](#endnote-ref-29)
30. Deepak Mohanty, “Global Financial Crisis and Monetary Policy Response in India” (speech, Reserve Bank of India November 12, 2009),” accessed July 3, 2019, www.rbi.org.in/scripts/BS\_SpeechesView.aspx?Id=446. [↑](#endnote-ref-30)
31. GDP was an important measure of a country’s economic performance. [↑](#endnote-ref-31)
32. ₹ = INR = Indian rupee; ₹1 = US$0.0147 on January 1, 2017. [↑](#endnote-ref-32)
33. Repo rate was the rate at which the RBI lent to commercial banks. [↑](#endnote-ref-33)
34. Deepak Mohanty, op. cit. [↑](#endnote-ref-34)
35. Anand Prakash, “Major Episodes of Volatility in the Indian Foreign Exchange Market in the Last Two Decades (1993-2013): Central Bank’s Response,” Reserve Bank of India, www.rbi.org.in/scripts/bs\_viewcontent.aspx?Id=2849. [↑](#endnote-ref-35)
36. T. T. Ram Mohan, “India's New Growth Paradigm: Faster Growth with Bigger Deficit and Higher Inflation,” *Economic Times*, March 29, 2012, https://economictimes.indiatimes.com/opinion/et-commentary/indias-new-growth-paradigm-faster-growth-with-bigger-deficit-and-higher-inflation/articleshow/12449114.cms. [↑](#endnote-ref-36)
37. Deepak Nayyar, “The Interest Rate Conundrum,” Live Mint, June 12, 2015, www.livemint.com/Opinion/DubsmSzgYLBp3Swu8TqPII/The-interest-rate-conundrum.html. [↑](#endnote-ref-37)
38. Press Trust of India, “RBI Defends Policy Action to Check Inflation at Cost of Growth,” Zee News India, September 27, 2011, accessed July 3, 2019, https://zeenews.india.com/business/news/economy/rbi-defends-policy-action-to-check-inflation-at-cost-of-growth\_31226.html; Press Trust of India, “K V Kamath Says Inflation Can't Be Fought with Textbook Approaches,” *Financial Express*, September 14, 2013, accessed July 3, 2019, www.financialexpress.com/archive/k-v-kamath-says-inflation-cant-be-fought-with-textbook-approaches/1168857. [↑](#endnote-ref-38)
39. Nikhil Gupta, “Household Savings and India's Current Account Deficit,” Ideas for India, September 25, 2015, accessed July 3, 2019, www.ideasforindia.in/topics/macroeconomics/household-savings-and-indias-current-account-deficit.html. [↑](#endnote-ref-39)
40. T. T. Ram Mohan, “India's New Growth Paradigm,” op. cit. [↑](#endnote-ref-40)
41. Reserve Bank of India, “RBI Announces Measures to Address Exchange Rate Volatility,” press release, July 15, 2013, accessed July 7, 2019, www.rbi.org.in/scripts/BS\_PressReleaseDisplay.aspx?prid=29086; Ministry of Finance, Department of Economic Affairs, Economic Division, *Quarterly Review 2013-14 (April-June)*, October 8, 2013, accessed July 7, 2019, https://dea.gov.in/sites/default/files/QrtReview\_june201314.pdf. [↑](#endnote-ref-41)
42. Reserve Bank of India, op. cit. [↑](#endnote-ref-42)
43. “Collateral Damage,” Money Today, September 2013, accessed July 3, 2019, www.businesstoday.in/moneytoday/perspective/rupee-fall-impact-based-on-rbi-measures-on-liquidity-supply/story/198047.html. [↑](#endnote-ref-43)
44. “Six Reasons Why Bad Loans Are a Menace in India, according to Raghuram Rajan,” DNA India, May 1, 2016, accessed July 7, 2019, www.dnaindia.com/money/report-six-reasons-why-bad-loans-are-a-menace-in-india-according-to-raghuram-rajan-2207976. [↑](#endnote-ref-44)
45. Charan Singh, “Why Are NPAs Higher in Public Sector Banks?,” *Business Standard*, May 19, 2014, accessed July 7, 2018, www.business-standard.com/article/opinion/charan-singh-why-are-npas-higher-in-public-sector-banks-114051901183\_1.html. [↑](#endnote-ref-45)
46. Nandini Sanyal and Sakshi Denis, “Banks Will Come Out of This NPA Crisis, We Tackled a Tougher One in ’90s: Kalpana Morparia,” *Economic Times*, May 19, 2016, accessed July 7, 2019, http://economictimes.indiatimes.com/markets/expert-view/banks-will-come-out-of-this-npa-crisis-we-tackled-a-tougher-one-in-90s-kalpana-morparia/articleshow/51610403.cms. [↑](#endnote-ref-46)
47. “Non-Performing Assets of Public Sector Banks to Be Examined by Parliamentary Panel,” *Indian Express*, April 29, 2016, accessed July 3, 2019, http://indianexpress.com/article/business/banking-and-finance/non-performing-assets-of-public-sector-banks-to-be-examined-by-parliamentary-panel-2776335. [↑](#endnote-ref-47)
48. T. T. Ram Mohan, “There Is Only So Much Arun Jaitley’s Budget Can Do to Fix the Rot in India’s Banking System,” Quartz India, February 28, 2016, accessed July 3, 2019, https://qz.com/626955/there-is-only-so-much-arun-jaitleys-budget-can-do-to-fix-the-rot-in-indias-banking-system. [↑](#endnote-ref-48)
49. Pooja Jaiswar, “Deputy RBI Governor Viral Acharya: Modi Brings Back Focus on Banks’ NPA Issue?,” Zee Business, December 28, 2016, accessed July 7, 2019, www.zeebiz.com/india/news-deputy-rbi-governor-viral-acharya-modi-brings-back-focus-on-banks-npa-issue-9831. [↑](#endnote-ref-49)
50. P. Krishna Prasanna, M. Thenmozhi, and Nimit Rana, “Determinants of Non-Performing Advances in Indian Banking System,” *Banks and Bank Systems* 9, no. 2 (2014): 65–77. [↑](#endnote-ref-50)
51. Samantaraya, op. cit. [↑](#endnote-ref-51)
52. On November 8, 2016, the Indian government announced that the existing ₹1,000 and ₹500 notes would cease to be legal tender and replaced them with new ₹500 and ₹2,000 notes. Among the reasons cited for this move was curbing black economy. [↑](#endnote-ref-52)
53. Pravakar Sahoo and Bhavesh Garg, “Demonetisation: Liquidity Problem May Worsen Bank NPAs as SMEs Face Crisis of Repayment,” *Financial Express*, December 27, 2016, accessed July 4, 2019, www.financialexpress.com/opinion/demonetisation-liquidity-problem-may-worsen-bank-npas-as-smes-face-crisis-of-repayment/487232. [↑](#endnote-ref-53)
54. T. T. Ram Mohan, “Banking Revival Must Be a Priority,” *Hindu*, June 22, 2016, www.thehindu.com/opinion/op-ed/Banking-revival-must-be-a-priority/article14393695.ece. [↑](#endnote-ref-54)
55. Samantaraya, op. cit. [↑](#endnote-ref-55)
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