PREFACE

The Indian economy faced a major economic crisis wherein the country's image took a beating when to tide the economic crisis government had to sell the gold reserves to other countries as was the call of that time. The finance minister at that point was forced to liberalize and globalize the Indian economy to keep pace with the global financial powers and meet the aspirations of the throughout the world. With a view to achieving liberalization and globalization, the then finance minister (now prime minister) Dr. Manmohan Singh made a historic announcement in 1991-92 constituting a basic committee under the chairmanship of the former. Reserve Bank Governor M. Narasimhan to make a detailed analysis of the economy of the country. The objective of organizing this committee was to analyze and evaluate the guiding principles relating to the composition, working methods and procedures of the economy of the country. The Narasimham Committee was appointed to suggest financial reforms in line with the Basle Committee reforms.

In course of its analysis and assessment of the subject under its consideration, the committee pin-pointed many flaws in the working of the present economic system. For remedying these flaws the committee made a number of suggestions and recommendations which are expected to bring about a lot of improvement in the working of the economy. Among these, one key recommendation was that all commercial institutions should adopt one common accounting policy, which incorporated mainly the adopting of standards for income-recognition, classification of assets and provisional measures. Till March 1992, banks used to recognize their income in a manner that treated even those gains as an income which was not received within a specified period. As a result the amount of profit shown by the banks did not present a realistic and objective overall picture of the situation.

Likewise, for the lack of any commonly accepted provisions, the commercial banks used to take their decisions at their own discretion with regard to assets that were of an unsound and doubtful nature and even incurring losses. This resulted in the drawing of a balance sheet that lacked transparency. The profit shown by the banks on such balance sheets was unreal and never reflected the real position. The recommendations made by the committee in November 1991 paved the way for financial reforms. These measures came into force w.e.f. 01-04-1992.
The run of liberalization provided the powerful banks the authority to seek capital investment from the common masses. As a result, the share of investment of the Indian government was reduced and that of the people was boosted, for this reason the responsibility of the banks has also increased and recovery of the loans with a view to increasing their profitability has become one of their major concerns. In this background it has become necessary for the banks to manage their assets properly. Managing the assets and liabilities has also become a difficult and challenging task. Before 1990 banks had no commonly accepted homogeneous guidelines under which banks could submit complete details of their economic condition. Indian banks are increasingly coming up to international standards. As we can see the banks have changed their logos, names and have accepted the net oriented concept of banking which was introduced by the private banks.

NPA like always have been a challenging problem for the banking business. The development of a homogeneous accounting system originated from the concept of the NPA. Reserve Bank of India (RBI) enforced the recommendations of the Narasimham Committee step by step because commercial banks were not in a position to implement all prudential norms in one go. These norms began to be enforced from 01-04-1992 and the once-in-vogue banking health code system which had been in practice since 1986, was replaced by the new norms. In this research the effort has been made to find out the causes of NPA at local level for which the field of study is Pune district. To identify the causes, State Bank of India, the largest public sector bank, has been chosen for study in Pune district. By understanding the local cause of NPA, local remedies have been given to tackle the problem of NPA at local level because macro remedies have been unsuccessful to solve the problem of NPA at macro level.

Indian economy has been traditionally rural and agriculture oriented with more than 75% of the population eking out their livelihood from it. The long colonial rule made the country a ready-made market for goods produced in western countries, particularly the UK, and destroyed rural economy landing rural masses and the country in acute poverty, unemployment and indebtedness. The government of independent India, having realized the gravity of the situation and also the fact that there could be no national growth without rural development, initiated steps in 1969 by nationalizing major commercial banks which hitherto had served the interest of only a few rich and influential industrial and business houses. This paved the way for nationalized banking
with high social content. Against this background, the problem of NPA (non-performing assets) in banks of Pune district (M. H.) is being studied.

The most crucial factor that governs the performance of banks is asset classification and the resultant NPA (Non-Performing Assets). The banks are not permitted to charge interest on these assets. A non-performing asset is one where the principal and interest charged is not recovered, for a particular period of time, therefore, it is necessary for the banks to manage their assets portfolio in such a way that regular recoveries are made as per the repayment norms and accounts are operated as per the norms prescribed by the committee. What role the banks, particularly the commercial banks, are playing in the development of the economy is a matter of great interest. An efficient management of the banking system needs efficient handling of capital investment and seeing to it that every penny invested fetches the maximum amount of utility. No part of investment should remain idle, sunken and unproductive. Non-performing assets (NPA) of the banks are one such investment that has become a bane of the system.

In this short thesis I have taken up only the NPA for my subject of study. The study of this single topic alone with regard to the whole country or even the whole district is a stupendous task. Therefore, I have selected only the Pune district for this purpose. This district to which I belong myself, appears to be a " representative district, for the study of this problem. This, district is neither very advanced nor industrialized like some other leading districts of Punjab, Haryana, Maharashtra and Tamilnadu nor so backward as Bastar of Chattisgarh or majority of the districts of the north-east. In education, infrastructure, industries, agriculture and trade Pune district is an average representative of the country.

I hope my efforts at understanding the extent, depth and nature of the NPA of the commercial banks in this selected area will serve as a model of the problem for the whole country. If may humble work is able to guide the policy makers, bankers and student and scholars of economics even to a small extent, I will consider my efforts amply rewarded.