PREFACE

The economic progress of a nation and development of banking is invariably interrelated. The Banking sector is an indispensable financial service sector supporting development plans through channelizing funds for productive purpose, intermediating flow of funds from surplus to deficit units and supporting financial and economic policies of government. The importance of bank’s stability in a developing economy is noteworthy as any distress affects the development plans thereby the economic progress. The Indian Banking sector accounts for a major portion of financial intermediation and acknowledged as main vehicle for monetary policy signals, credit channel and facilitator for payment systems.

Banking sector plays a pivotal role in the development of economy. The nationalization of the major banks in July 1969 is an important Landmark and turning point in the history of Indian commercial banking. There has been a momentous change in the perception and practices of commercial banks, particularly public sector banks. The nationalization period saw the penetration of branches of public sector banks in hitherto unbanked areas/remote corners of the country. It also saw the emergence of priority sector lending consisting of agriculture, small industry, exports, road operations etc. which were hitherto treated as untouchables. There was a marked shift to social banking as public sector banks participated in the poverty alleviation programmes.

There are costs along with benefits. There had been a steep decline in productivity, efficiency and profitability of banks during post-reform period. Due
to directed investment and credit programmes and also due to factors operating on both income and cost side, the health of banks deteriorated. The bad, doubtful and loss advances known as Non-performing assets, accumulated in whooping figures. The Government of India appointed high level Committee under the chairmanship of Sri M. Narasimham in 1991 and 1998. The recommendations of the committee relating to prudential norms – income recognition, asset classification and provisioning lie at the heart of banking sector reforms.

In this study, empirical evidence that explain how NPA performed in Indian banking, based on statistics during post-millennium period is discussed. Indian banking system was classified based ownership into SBI & Associates, Nationalized Banks, Private Sector Banks and Foreign Banks. In the present study two Public sector and two private sector banks were studied. A unique approach was adopted in investigating the effect of NPA based on growth rate, absolute figures and its movement; rather than focusing on NPA ratio’s which often lead to wrong conclusion. This study appraise whether the reduction in NPA ratios really reflect efficiency of Indian banking in post-liberalization period.

Prudential norms are intended to cleanse the Balance Sheet of banks and restore financial health. In this context the management of NPAs assume importance. The study therefore, concentrates on “Prudential Norms, analysis of magnitude and trends of NPAs in public and private sector banks, management practices to recover NPAs etc. The NPAs management strategy of the banks is outlined. The study is significant for several reasons. First and foremost, it explains
NPA, which contributed to transformational changes in banking since liberation, i.e., 1991. Banking regulators and financial pandits focused their attention to curb the menace of NPA, but it still remains disturbing banking progress worldwide. Even though NPA ratios indicate significant improvements through effective NPA management, a clear picture of NPA trends is still difficult to visualize. This study attempts to provide an understanding on whether Indian banking could manage its NPA during post-millennium period effectively. This study therefore assumes significance in analyzing NPAs in public and private sector banks and management practices.

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