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Analyzing The Impact of Non-Performing Assets on The Financial Stability of Indian Banks (2014–2024)

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Abstract

The Indian banking industry faces a serious problem with "non-performing assets (NPAs)", which has a credit flow profitability and an impact on financial stability. Using the data of "Reserve Bank of India (RBI), this study looks at the Non-Permital Employment (NPA)" growth trends and how they affect Indian banks between 2014 and 2024. To identify important drivers such as poor credit evaluation and economic recession, it examines the gross "non-demonstration property (NPA)" and their ratio beyond the "public and private banks". According to research, private banks such as HDFC Banks had NPA ratio (1.24% in 2024) compared to public banks like Punjab National Banks, with a high ratio (at a peak of 18.38% in 2018). After the NPA ratio 2018, regulatory tasks such as insolvency and bankruptcy codes decreased as a result, although problems still exist. To improve banking stability, study highlights strong credit management and legislative changes.

Keywords: Non-Performing Assets, Indian Banking, Credit Risk, Financial Stability, NPA Management

Introduction

As the foundation of the Indian economy, the banking industry plays an important role in directing credit and saving funds towards productive industries, which promotes both personal and industrial prosperity. This inclusive development has developed in a sophisticated and essential financial ecosystem in the years promoting infrastructure expansion and entrepreneurship (Kadanda and Raj 2018). However, the increasing weight weight of "non-performing assets (NPAs) has become one of THE highest pressure problems of the industry. Non-demonstration property (NPAs)" are advances or banks no longer take interest on loans that are more than 90 days. Due to their disintegration of earning and reduction in liquidity for earn to increase these impaired assets, they endanger the capacity of banks to provide new credit (Leo 2016).

After 2014, the NPAS started rapidly growing, "According to the data of the Reserve Bank of India (RBI)." This was caused by a combination of aggressive lending of comfortable credit assessment standards during the years of bouncing before 2008 and a slowdown in important economic fields after the global financial crisis. “Three categories of non-performing assets (NPAS) represents the high degree of every financial fall and recovery risk (Bhadari and Pratap 2018).”

Due to infrastructure and their increased dependence on large industrial loans which are often given in response to political or developmental pressures, “public sector banks (PSBs)” have been particularly difficult to be killed by this crisis. On the other hand, private banks have maintained the quality of their more stringent risk evaluation processes and comparatively better asset for diverse loan portfolio. Basel III-mandatory capital adequate standards at an increase in “non-performing assets (NPAs)” affect the shareholder trust and reduce market capitalization in addition to reducing profitability. The target of examining the impacts of NPA growth on Indian banks' stability and financial performance aims to study.

Objectives

1. To analyse the growth trends of “Gross NPAs and their ratios to Gross Advances across public and private banks in India from 2014 to 2024.”
2. To evaluate how the increase in nonperforming assets affects the soundness and profitability of India's banking sector.

Literature Review

In his 2017 study, Kumari et al. (2017) examines the financial performance of Indian banks and direct relations between non-performing assets (NPAs)" with focusing on assets (ROAs) as an important metric. Banks in the private as well as public industries used a panel data regression approach from 2013 to 2017 to evaluate each other according to their market values. The writers hold the view that a higher favorable correlation is present between financial success and "gross non-performing assets (GNPAS)". This shows that the ROA is greatly affected when GNPA and NNPA grow.

Using a Macro perspective, Agarwala and Agarwala (2019) evaluated the growth trends of “non-performing assets (NPAs)” for many Indian bank categories, in which nationalized banks SBI and its associates and its associates and private sector banks including Runization and 2017, including RNIZATION and 2017, have done more effective work according to the private banks. Nationalized banks and SBI colleagues saw a significant increase in “non-performing assets (NPAs)” due to insufficient risk management and disabled loan recovery techniques.

Banks have been emphasized by Mishra and Pavaskar (2017) on the importance of loan recovery in conservation of financial stability. They say insufficient credit management is a sign of “non-performing assets (NPAs)”, in addition to increasing the provision, bank profitability is significantly reduced. Public sector banks are unevenly affected according to writers due to their Lax Credit Policies and Slow Reaction to Stressed Assets. While rising NPAs demand immediate reforms they also emphasize how falling NPAs can enhance a banks credibility and overall performance in credit assessments.

The NPA issue is positioned within the broader context of banking reforms that took place after 1991 according to Balasubramaniam (2012). In light of changing regulatory requirements such as Basel III his paper examines long-term NPA trends and their effects on profitability. In order to ensure financial stability and operational effectiveness in Indian banking the study highlights the importance of sectoral credit checks prudent financial practices and structural enhancements in asset classification and restructuring. It also suggests that NPA control is crucial.

Research Gap

Existing research focuses on general strategies and the causes of “non-performing assets (NPAs)” but it does not thoroughly analyse recent trends (after 2014) using bank-level gross non-performing ratios. In order to tackle this this study looks at NPA trends through 2024 with an emphasis on public-private disparities.

Research Methodology

With a focus on “gross non-performing assets (NPAs)” and their proportion to gross advances this quantitative study examines NPA trends in Indian banks between 2014 and 2024. “Axis Bank ICICI Bank Federal Bank and HDFC Bank are the four private banks included in the sample along with four public banks: Bank of Baroda State Bank of India Punjab National Bank and Canara Bank.” The information comes from the RBIs annual reports and includes gross advances (in INR crores) “and gross non-performing assets (in INR crores)” with NPA ratios expressed as percentages. Trends are evaluated through descriptive statistics such as averages and growth rates from year to year. Banks are compared to sector averages using comparative analysis to determine which ones are performing better and which are not. In order to capture the effects of post-2016 regulations like the “Insolvency and Bankruptcy” Code the study makes use of recent data. Limitations include the use of secondary data and the omission of qualitative elements such as management techniques.

Data Analysis

This study analyses the trends in Gross Non-Performing Asset (GNPA) ratios across selected public and private sector banks in India using RBI data from 2014 to 2024. The analysis reveals a clear divergence in asset quality management between public and private banks,” with significant implications for their financial performance.

Public sector banks showed consistent high NPA levels, especially during 2016-2018, showing inheritance issues with weak credit assessment systems, economic recession and earlier debt cycles. In particular, the Punjab National Bank (PNB) reported a sum GNPA ratio of 18.38% in 2018, the highest among the major public banks. However, after 2018, a decline trend is observed, "is powered by regulatory measures such as Insolvency and Insolvency Code (IBC) and Asset Quality Review. By 2024, State Bank of India (SBI) reported 2.24%to GNPA among public banks," effective recovery strategies and better credit controls. However, 5.73% signals in PNB's 2024 GNPA ratio continued challenges in recovery and asset quality maintenance.

Table 1. Gross NPA to Gross Advances Ratio – Public Sector Banks (2014–2024) *(Figures in %)*

Year	“Bank of Baroda”	SBI	“Punjab National Bank”	“Canara Bank”
2024	2.92	2.24	5.73	4.23
2023	3.79	2.78	8.74	5.35
2022	6.61	3.97	11.78	7.34
2021	8.87	4.98	14.12	8.93
2020	9.40	6.15	14.21	8.04
2019	9.61	7.53	15.50	8.83
2018	12.26	10.91	18.38	11.84
2017	10.46	6.90	12.53	9.63
2016	9.99	6.50	12.90	9.40
2015	3.72	4.25	6.55	3.89
2014	2.94	4.95	5.25	2.49

Source: RBI Annual Reports (2014–2024)

In contrast, private sector banks continuously maintained the GNPA ratio, which reflects strong credit monitoring and risk management structure. HDFC Bank remained the most stable, below 1.5% throughout the decade with GNPA ratio and 1.24% in 2024. Even ICICI

Bank, which faced a GNPA peak of 9.90% in 2018, managed to reduce it by 2.26% by 2024, indicating successful restructuring and recovery mechanisms. Overall, private sector GNPA decreased from 4.7% in average 2018 to 2.3% in 2023 in 2023, per RBI estimates.

Table 2. Gross NPA to Gross Advances Ratio – Private Sector Banks (2014–2024) *(Figures in %)*

Year	"Axis Bank"	"ICICI Bank"	"Federal Bank"	"HDFC Bank"
2024	1.47	2.26	2.13	1.24
2023	1.98	2.87	2.36	1.12
2022	2.57	3.76	2.80	1.17
2021	3.54	5.33	3.41	1.31
2020	4.52	6.04	2.84	1.25
2019	5.31	7.38	2.92	1.35
2018	6.79	9.90	3.00	1.28
2017	5.21	8.74	2.33	1.04
2016	1.71	5.82	2.84	0.92
2015	1.36	3.78	2.04	0.89
2014	1.29	3.03	2.46	0.91

Source: RBI Annual Reports (2014–2024)

The high GNPA ratio in public banks has adversely affected profitability by increasing the provision that provides provisions, reducing both capital adequacy and lending capacity. The opposite credit in NPA management between public and private banks emphasizes the immediate need for evaluation reforms and active regulatory framework. "While intervention such as Sarfaesi Act and Debt Recovery Tribunal (DRT) has contributed to recovery, they remain insufficient without extensive risk governance and structural banking reforms.

Conclusion

A notable inequality in the quality of assets between Indian "public and private" sector banks show the test of the trends of the GDP from 2014 to 2024. 2016 and 2018, especially the poor governance of high NPA levels experienced by Punjab banks, were the leading reasons for macroeconomic stress and insufficient credit assessment systems. Long-term problems still exist in some public banks, even though regulatory action such as the "Sarfaesi Act the Insolvency and Insolvency Code (IBC) and Asset Quality Review has helped to reduce non-performing assets (NPAs) gradually since 2018". However, over the course of the decade private sector banks like HDFC and Federal Bank showed comparatively stable and lower GNPA ratios highlighting improved operational autonomy effective credit monitoring and stronger risk management. The fact that ICICI Bank has recovered from its 2018 peak further demonstrates how successful internal reforms and regulatory oversight are.

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