6. GNPA Of Scheduled Commercial Banks- Economy

Gross NPAs of SCBs hit a historic low of 2.15% as of Sept. 2025- FinMin

The Finance Ministry reported that the Gross Non-Performing Assets (GNPA) of Scheduled Commercial Banks have dropped to a historic low of 2.15% (as of September 2025), the lowest in over a decade. This sharp turnaround from the 11.2% peak in FY18 is attributed to the government's 4R strategy (Recognition, Resolution, Recapitalisation, Reforms) and improved underwriting standards.

Historic Decline in NPAs

The Finance Ministry has informed that the Gross Non-Performing Assets (GNPA) of Scheduled Commercial Banks (SCBs) have declined to a historic low as of September 30, 2025, reaching levels lower than those seen in the financial year 2010–11.

Trends in Gross NPAs

Historic Low

1. The GNPA ratio of Scheduled Commercial Banks (SCBs) has fallen to 2.15%.
2. This represents the lowest level in over a decade.
3. Peak Comparison- This is a significant turnaround from the peak GNPA ratio of around 11.2% in FY18.

Sector-wise Performance

1. Public Sector Banks (PSBs)- Reported a GNPA ratio of 2.50%. They have shown a sharper decline since March 2018 compared to other bank groups.
1. Private Sector Banks- Recorded a lower GNPA ratio of 1.73%, indicating stronger asset quality.
2. Foreign Banks- Reported the lowest GNPA ratio among all groups at 0.80%.

Decline in Fresh NPAs- The slippage ratio, which measures the fresh accretion (addition) of NPAs, has shown consistent improvement over the last six years.

Drivers of Improvement

Strengthened Underwriting Standards- The decline indicates better credit appraisal and risk assessment practices, especially within PSBs.

Resilient Balance Sheets- Sustained profitability has helped banks build stronger capital positions.

Government's 4R Approach- The decline is attributed to the government's strategy comprising-

1. Recognition of NPAs transparently.
2. Resolution and Recovery through legal mechanisms.
3. Recapitalisation of PSBs.
4. Reforms in the financial ecosystem.

Impact on Bank Performance

Reduced Provisioning Burden- Lower NPAs mean banks need to set aside less money for potential losses, freeing up capital for lending.

Improved Profitability- Reduced financial stress strengthens balance sheets and enhances overall profitability.

Positive Credit Growth- Better asset quality boosts lending capacity and supports business growth.

About Non-Performing Assets (NPAs)

Definition- A Non-Performing Asset (NPA) is a loan or advance where the interest and/or principal remains overdue for more than 90 days. Since interest income is a primary revenue source for banks, a loan is classified as an "asset." When a borrower fails to service it, the asset stops generating income and becomes "non-performing."

Classification of NPAs (RBI Guidelines)

Category	**Definition**	**Status**
Substandard Assets	Assets that have remained NPAs for a period up to 12 months.	High Risk

Doubtful Assets	Assets that have remained in the substandard category for more than 12 months.	Higher risk of non-recovery
Loss Assets	Assets identified as uncollectible or of negligible value.	Continuation as a bankable asset is not justified (though some recovery may occur).

Early Stress Recognition (Pre-NPA Stages)

Before a loan becomes an NPA, it is classified as a Special Mention Account (SMA) based on the overdue period-

1. SMA-0- Overdue up to 30 days.
2. SMA-1- Overdue 31–60 days.
3. SMA-2- Overdue 61–90 days.

Gross vs. Net NPAs

Feature	Gross NPA (GNPA)	Net NPA (NNPA)
Definition	Represents the total value of NPAs on the bank's books at a given point in time.	Calculated by subtracting provisions made by the bank from Gross NPAs.
Significance	Indicates the overall stress in the loan portfolio.	Reflects the actual burden of bad loans and the bank's effective exposure after provisioning.
Calculation	GNPA Ratio = (Gross NPAs / Total Advances) %	NNPA Ratio = (Net NPAs / Total Advances) %

NPA Provisioning

Definition- Provisioning refers to the portion of loan value that banks must set aside from their profits to cover potential losses arising from bad loans.

Standard Norms

1. Standard Assets- Provisioning typically ranges between 0.25% to 1% (varies by sector like agriculture, SMEs, etc.).
2. NPAs- Banks are required to make up to 100% provisioning (depending on the asset category—substandard, doubtful, or loss) in line with Basel III norms to safeguard financial stability.

Steps Taken to Reduce NPAs

Debt Recovery Tribunals (DRTs)- Established under the Recovery of Debts and Bankruptcy Act, 1993 to provide speedy adjudication and recovery of dues.

SARFAESI Act, 2002

1. Empowers secured creditors to take possession of collateral without court intervention.
2. Amendments- Empowered RBI to audit Asset Reconstruction Companies (ARCs), penalize non-compliance, and mandated registration of security interests with CERSAI.

Indradhanush Plan- Launched to strengthen Public Sector Banks through capital infusion, governance reforms, and operational restructuring.

Asset Quality Review (AQR) 2015- Initiated by RBI to expose hidden stress in balance sheets, forcing transparent recognition of NPAs.

Insolvency and Bankruptcy Code (IBC), 2016

1. Enables time-bound insolvency resolution (typically 180 days, extendable by 90 days).
2. Impact- As of March 2025, over 30,000 cases involving ₹13.78 lakh crore were settled at the pre-admission stage.

Prudential Resolution Framework (2019)- Incentivizes early resolution of stressed assets by banks.

National Asset Reconstruction Company Limited (NARCL)- Created to absorb stressed assets from banks to clean up their books.

About Loan Write-off

Definition- An accounting tool used to remove bad loans from the balance sheet to present a cleaner financial picture.

Criteria- Often done if repayment defaults continue for three consecutive quarters or if the loan is fully provided for.

Key Distinction- Writing off does not mean a loan waiver. The bank still retains the legal right to recover the dues from the borrower.

Benefit- Banks become eligible for tax deductions on the written-off amounts.

Source- https-//www.thehindu.com/business/gross-npas-of-scbs-hit-a-historic-low-of-215-as-of-sept-2025-finmin/article70612020.ece