



# A STUDY ON THE IMPACT OF NON- PERFORMING ASSETS ON ECONOMIC GROWTH IN THE INDIAN ECONOMY

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## Abstract

Non-Performing Assets (NPAs) have emerged as a major challenge affecting the stability and performance of the Indian banking sector. A high level of NPAs adversely impacts bank profitability, reduces credit expansion, weakens financial stability, and ultimately affects economic growth. The Government of India and the Reserve Bank of India (RBI) have introduced several reforms, including the Insolvency and Bankruptcy Code (IBC), Asset Reconstruction Companies (ARCs), and bank recapitalization measures to address this issue. This study examines the impact of NPAs on India's economic growth by analyzing trends in Gross Non-Performing Assets (GNPA), GDP growth, and banking sector performance during the period 2020–2025. The study is based on secondary data collected from RBI reports, Economic Surveys, journals, and government publications. The findings reveal that declining NPAs have strengthened the banking sector, improved credit availability, and contributed positively to economic growth.

**Keywords:** Non-Performing Assets, Economic Growth, Gross NPA, Banking Sector, GDP Growth, Financial Stability.

## Introduction

The banking sector plays a crucial role in economic development by mobilizing savings and channeling them into productive investments. A healthy banking system supports industrial growth, infrastructure development, employment generation, and overall economic progress. However, the accumulation of Non-Performing Assets (NPAs) has become a major concern for the Indian banking sector.

A loan is classified as a Non-Performing Asset when the interest or principal remains overdue for more than 90 days. Rising NPAs reduce bank profitability, restrict credit expansion, and adversely affect economic growth. In India, NPAs increased significantly after 2015 due to corporate debt stress, infrastructure project delays, and economic slowdown. To address this issue, the Government of India and RBI implemented several reforms such as the Insolvency and Bankruptcy Code (IBC), Asset Reconstruction Companies (ARCs), and recapitalization of public sector banks. Recent improvements in asset quality indicate that these measures have contributed significantly to reducing NPAs.

## Objectives of the Study

1. To analyze the trend of Non-Performing Assets in the Indian banking sector.
2. To examine the relationship between NPAs and economic growth in India.
3. To study the measures adopted by the RBI and the Government of India to control NPAs.

## Research Methodology

The study is descriptive and analytical in nature. It is based entirely on secondary data collected from RBI publications, Economic Surveys, journals, books, and government reports. Data relating to Gross NPA ratios and GDP growth rates for the period 2020–2025 have been analyzed through tables and descriptive interpretation.

## Concept of Non-Performing Assets

A Non-Performing Asset refers to a loan or advance in which:

- Interest or installment remains overdue for more than 90 days.
- The borrower fails to repay principal or interest.
- The asset ceases to generate income for the bank.

## Types of NPAs

Type of Asset	Duration
Sub-standard Asset	Up to 12 months
Doubtful Asset	More than 12 months
Loss Asset	Identified as uncollectable

**Source:** RBI Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning.

## Impact of NPAs on Economic Growth

NPAs affect both the banking sector and the overall economy.

- Reduction in bank profitability.
- Contraction in credit availability.
- Increase in lending rates.
- Decline in investor confidence.
- Slowdown in economic growth and development activities.

## Trend of Non-Performing Assets in the Indian Banking Sector

### Gross NPA Ratio of Scheduled Commercial Banks (FY2020–FY2025)

Financial Year	Gross NPA Ratio (%)
FY2020	8.5
FY2021	7.3
FY2022	5.9
FY2023	3.9
FY2024	2.7
FY2025	2.2

Source: Reserve Bank of India, *Financial Stability Reports* (Various Issues, 2020–2025).

### Interpretation

The Gross NPA ratio declined consistently from 8.5 percent in FY2020 to 2.2 percent in FY2025. This improvement reflects stronger recovery mechanisms, implementation of the Insolvency and Bankruptcy Code, better credit appraisal systems, and enhanced supervision by RBI. The declining trend indicates improved asset quality and greater resilience within the Indian banking sector.

## Relationship Between NPAs and Economic Growth

### Gross NPA Ratio and GDP Growth Rate in India

Year	Gross NPA Ratio (%)	GDP Growth Rate (%)
2020	8.2	-6.6
2021	7.3	8.9
2022	5.9	7.2
2023	3.9	7.0
2024	2.8	8.0
2025	2.2	6.5

Source: Reserve Bank of India, *Financial Stability Reports*; Government of India, *Economic Survey 2024–25*.

## Interpretation

The table indicates an inverse relationship between NPAs and economic growth. As Gross NPA ratios declined, GDP growth improved due to stronger lending activity, increased investment, and improved banking sector confidence. Lower NPAs enhance the capacity of banks to finance productive sectors, thereby supporting economic development.

## Measures Undertaken to Reduce NPAs

The Government of India and RBI have implemented several measures to address the NPA problem:

1. Introduction of the Insolvency and Bankruptcy Code (IBC), 2016.
2. Strengthening of the SARFAESI Act.
3. Expansion of Asset Reconstruction Companies (ARCs).
4. Recapitalization of Public Sector Banks.
5. Asset Quality Review (AQR) by RBI.
6. Development of Early Warning Systems (EWS).

These measures have improved recovery rates and strengthened financial discipline in the banking sector.

## Findings of the Study

1. Gross NPA ratios have declined significantly between FY2020 and FY2025.
2. Banking sector asset quality has improved considerably.
3. Lower NPAs are associated with stronger economic growth.
4. Regulatory reforms have played a crucial role in reducing stressed assets.
5. Improved credit monitoring has strengthened financial stability.

## Conclusion

Non-Performing Assets remain a major challenge for the banking sector due to their impact on profitability, lending capacity, and financial stability. However, the Indian banking system has made significant progress in reducing NPAs through regulatory reforms, improved recovery mechanisms, and strengthened supervision.

The declining trend in Gross NPAs during 2020–2025 reflects the effectiveness of these policy measures. Continued emphasis on prudent lending practices, efficient risk management, and timely resolution of stressed assets will be essential for sustaining financial stability and promoting long-term economic growth in India.

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