A Study of High Levels of Non-Performing Assets, Constrain Lower Interest Rate in India

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Abstract:-
Gross NPA of both State Bank Group and New Private Sector Banks continue to rise through out from the year 2007 to 2011 except the year 2010 in New Private Sector Banks. The study is based on the secondary data. The scope of the study is limited to five years data. The study is related to State Bank Group and New Private Sector Banks.

KEYWORDS: Assets, Bank, NPA, Interest rate

1. Introduction:
The Indian Banks have managed to grow with resilience during the post reform era. However the Indian banking sector still has a large market unexplored. With the Indian households being one of the highest savers in the world accounting for 69% of India gross national saving of which only 47% is accessed by the banks more than half of the Indian population still unbanked with only 55 per cent of the population have a deposit account and 9 per cent have credit accounts with banks. India has the highest number of households (145 million) excluded from Banking & has only one bank branch per 14,000 people. On the other hand, Indian banking industry has to face challenges like financial inclusion, deregulation of interest rates on saving deposits, slow industrial growth, management of asset quality, increased stress on some sectors, transition to the International Financial Reporting System, implementation of Basel II & so on.

They will need to have a flexible organisational structure with decentralised decision making to reduce turnaround time for various processes. This will be especially true when a number of new entities including non-banking finance companies (NBFCs), large corporate houses and microfinance institutions (MFIs) get banking licenses. In order to serve potential customers in unbanked areas, banks should be willing to experiment with various business models to build a scalable and profitable business. Technology resources will have to be shared to reduce cost.

2. Objectives:-
(1) To examine CD ratio of banks in Odisha
(2) To analyse Gross NPA of State Bank Group and New Private Sector Banks
(3) To study Advances of State Bank Group and New Private Sector Banks
(4) To determine changes introduced by lower interest rates regime

3. Methodology:-
The study is based on the secondary data. The scope of the study is limited to five years data. The study is related to State Bank Group and New Private Sector Banks.
Table 1. Gross NPA of State Bank Group and New Private Sector Banks
(Amounts in Rs. Lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>State Bank Group</th>
<th>New Private Sector Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1226000</td>
<td>595300</td>
</tr>
<tr>
<td>2008</td>
<td>1503700</td>
<td>988900</td>
</tr>
<tr>
<td>2009</td>
<td>1881255</td>
<td>1389992</td>
</tr>
<tr>
<td>2010</td>
<td>2133767</td>
<td>1377220</td>
</tr>
<tr>
<td>2011</td>
<td>2814002</td>
<td>1427672</td>
</tr>
</tbody>
</table>

Source:- www. Department of Banking Supervision, RBI

The Table 1 shows that Gross NPA of both State Bank Group and New Private Sector Banks continue to rise throughout from the year 2007 to 2011 except the year 2010 in New Private Sector Banks.

Table 2. Gross Advances of State Bank Group and New Private Sector Banks
(Amounts in Rs. Lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>State Bank Group</th>
<th>New Private Sector Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>46216307</td>
<td>31387500</td>
</tr>
<tr>
<td>2008</td>
<td>56987508</td>
<td>39598600</td>
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<tr>
<td>2009</td>
<td>72614499</td>
<td>45471321</td>
</tr>
<tr>
<td>2010</td>
<td>74900128</td>
<td>42818433</td>
</tr>
<tr>
<td>2011</td>
<td>90285760</td>
<td>54501393</td>
</tr>
</tbody>
</table>

Source:- www. Department of Banking Supervision, RBI

Table 2 exhibits that Gross Advances of both State Bank Group and New Private Sector Banks continues to rise throughout from the year 2007 to 2011 except the year 2010 in New Private Sector Banks.

3.1 Credit-Deposit Ratio of Banks in Odisha

This is the ratio of loans advanced to total deposits and serves as an important indicator of banking activity. A very high ratio would indicate a high level of risk, while a low ratio would mean that banks are being too risk-averse. A ratio in the range of 60-65 percent is considered moderate, which is neither too risky nor too conservative.

In comparison to co-operative banks, commercial banks advance loans in a more conservative fashion. Amongst commercial banks, rural regional banks are the most conservative followed by public sector and private sector banks.

It may be observed that Private sector banks hardly advance any loans to weaker sections. Even the role of public sector banks for these sections is limited. In this regard, regional rural banks take the lead. In the year 2011, the CD ratio in Co-operative banks was at 105.24% as compared to 63.05% in commercial banks. CD ratio of different Banks are 56.67%, 67.99%, 54.74% and 63.05% respectively in the year 2010-11.

3.2 Changes Introduced by Lower Interest Rates Regime

The interest rate scenario in our country was a regulated structure for a fairly long time. In the last few years interest rates have been deregulated. After the deregulation, interest rates initially moved up. However in recent times, interest rates have begun to come down, mainly because of the ample liquidity prevalent in the system. The integration of the domestic economy with global economies also had a positive impact on the interest rates. When global interest rates witnessed a downward movement, a similar declining trend was also observed in our interest rates, especially, over the last
year. In the year 2001, interest rates across all small savings instruments like PPF, Post office monthly income schemes, RBI relief bonds have been reduced. Thus the global developments, coupled with reduction in the administered rate structure, lower inflation and ample liquidity have led to lower interest rates in our country.

However, the non-interest operating expenses of public sector banks in India are high by international standards. These work out to 2.5 to 3 per cent of total assets. The high transaction costs, which generally reflect high staff costs, combined with relatively high levels of non-performing – assets, further constrain the maneuverability in respect of lending rates.

Following are some of the factors which reduce downward flexibility in the rate of interest structure in India:

- Banks have been given the freedom to offer “Variable” interest rates on long –term deposits. However, for various reasons, the preference of depositors as well as the traditional practice with banks tended to favour fixed interest rates on term deposits. This practice has effectively reduced the flexibility that banks have in lowering their lending rates in the short run, since the rates on the existing stock of deposits cannot be lowered.
- For the Public sector banks, the average cost of funds is over 7.00 per cent and for many private sector banks, the average cost is even higher. Relatively high overhang of non-performing-assets pushes up further, the lending rate.
- There is persistent and large volume of market borrowing requirements of the government, giving an upward bias to the interest rate structure.
- The credit off take is inconsistent with that of deposits due to less demand for credit.

4. Conclusion:-

It may be observed that Private sector banks hardly advance any loans to weaker sections. Even the role of public sector banks for these sections is limited. Due to the high levels of NPA in the banking system in India the cost borrowing also rises. When global interest rates witnessed a downward movement, a similar declining trend was also observed in our interest rates, especially, over the last year.

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