INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]

VOLUME 6 AND ISSUE 1 OF 2026

APIS – 3920 - 0001 *(and)* ISSN - 2583-2344

Published by

Institute of Legal Education

https://iledu.in

EFFECTIVENESS OF RBI'S PRUDENTIAL NORMS ON NPA REDUCTION: AN ANALYSIS OF POST-2015 REFORMS

AUTHOR - ADV.TEJASWANI PRASADAM, NALSAR UNIVERSITY

BEST CITATION - ADV.TEJASWANI PRASADAM, EFFECTIVENESS OF RBI'S PRUDENTIAL NORMS ON NPA REDUCTION: AN ANALYSIS OF POST-2015 REFORMS, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR)*, 6 (1) OF 2026, PG. 423-432, APIS – 3920 – 0001 & ISSN - 2583-2344.

ABSTRACT

The Reserve Bank of India (RBI Non-Performing Assets (NPAs) represent the main concern for Indian banks, undermining profitability and jeopardizing financial stability.) has systematically strengthened prudential regulations concerning income recognition, asset categorization, and provisioning, particularly post-2015, through initiatives such as the Asset Quality Review (AQR), Prompt Corrective Action (PCA), and updated IRAC requirements. This paper examines the efficacy of these prudential measures in diminishing NPAs and enhancing the lending culture of Indian banks. The study utilizes NPA data, RBI circulars, and case studies from public and private sector banks to ascertain if regulatory reforms have effectively mitigated stressed assets or merely reclassified them into restructured categories. Comparative analyses of international prudential regimes will be examined to underscore optimal methods for enhancing India's NPA management.

INTRODUCTION

The Indian banking sector has long been seriously threatened by Non-Performing Assets (NPAs), which reduce profitability, jeopardize capital sufficiency, and threatening financial stability. Recognising the seriousness of the issue, the Reserve Bank of India has, particularly since 2015, implemented a suite of prudential norms in order to strengthen bank's resilience. These include the Asset Quality Review (AQR) to critically assess the health of bank's loan portfolios, The Prompt Corrective Action used by RBI to monitor and intervene with banks and Non-Banking Financial Companies (NBFCs) that show the financial distress, and updated guidelines under Income Recognition, Asset Classification and Provisioning. These steps have been taken to strengthen bank's ability to withstand losses as well as to recognise the distress in bank loan portfolios.

Yet there is a question as to whether these reforms have translated into a genuine reduction in NPAs or simply led to reclassification, with only little in improvements in actual stressed – asset resolution.

It is to be noted that post -2015, it is revealed that the gross NPAs for scheduled commercial banks and particularly for Public Sector Banks (PSBs), peaked in the 2017-18 period, gross NPAs rose to approximately 14.6% of gross advance.[1143] Following the regulatory push (AQR), the hidden stress became visible. Over the following years, the data show that there has been steady decline in the gross NPAs for PSBs have been sliding down, the net NPAs are also reducing, the write-offs and recovery and resolution efforts have contributed materially to improved asset quality.

Similarly, the Gross NPAs of the private banks have increased to 5.45% in the year 2019-20. The same trend can be noticed for the foreign banks also. However, the latest data show the

[1143] Rajkumar & Paul, *Trends and Patterns of NPAs in Public and Private Sector Banks in India: A Decadal Analysis (2013–2023)* (2025), https://www.journalijar.com/article/54696/trends-and-patterns-of-npas-in-public-and-private-sector-commercial-banks-in-india-a-decadal-analysis-(2013-2023)

decline the recent years. It is not be noted that Gross NPA ratio of private banks does not show any serious crisis and had better margins of recovery and lower NPA peaks.[1144]

From legal and regulatory perspective, these reforms are significant, AQR lead to the unmasking of "hidden NPAs", stricter norms have reshaped how and when the banks must classify the stressed assets. PCA provides legally binding supervision of banks, the enactment of laws like Insolvency and Bankruptcy Code, 2016 (IBC) have given more strength to resolve the assets. The prudential norms came into force to change the behaviour of the banks.

The paper will examine NPA data, studies of PSBs, official RBI circulars and regulatory orders, and study the impact.

RESEARCH QUESTION

1. Whether RBI's post-2015 prudential norms (AQR, PCA, IRAC guidelines) have effectively reduced NPAs in Indian banks.
2. Whether stricter provisioning requirements improve long-term bank stability or negatively impact short-term profitability.

RESEARCH GAP:

Although many studies cover the NPAs until early mid-2010, but only few examinations are made on Asset Quality Review, PCA norms and IBC have cumulatively impacted the NPAs and bank stability in the recent years.

SCOPE OF THE RESEARCH

The research will focus on the following

- Time period, the study will cover from 2015 to latest available year
- Will cover how NPAs affect the economy of the country
- The role of RBI in reducing NPAs
- Will cover the scope of the prudential norms on the NPAs
- The outcome of the prudential norms

RESEARCH METHODOLOGY

The research adopts the doctrinal methodology, relying on the analysis of secondary data and regulatory framework, to evaluate the effectiveness of RBI's post-2015 prudential norms on NPA reduction. It involves comprehensive study of RBI circulars, annual reports, government publications to assess the policy implementations. The study also examines journal articles to understand the legal and economic to implications prudential norms. Statistical data from the RBI reports are analysed to identify trends to understand the impact of these reforms and financial stability.

RESEARCH OBJECTIVES:

- To evaluate the effectiveness of RBI, post-2015 prudential norms
- To analyse the impact of the provisioning and classification of the norms
- To examine the whether the decline in NPAs in recovery and resolution
- to assess the role of the RBI in reducing the NPAs in the country

THE NPA:

When a bank lends to a borrower, it may be an asset, but when that assets cease to earn income, then it becomes the non-performing asset (NPA)[1145]. NPA is the credit exposure like a loan or advance, which no longer generates income for the lending institution, which is usually the bank in most cases.

More precisely the RBI defines NPA as a loan or advance for which interest or instalment of principal remains overdue or 'past due' for more than 90 days.[1146] In simpler terms, an asset becomes an NPA when it stops yielding returns in the form scheduled payments to the bank.

1144 **NPAs in India's Banks: Trends and Determinants** Santosh Kumar Das, *NPAs in India's Banks: Trends and Determinants*, 3 J. Money & Bus. 147 (2023), https://www.emerald.com/jmb/article/3/2/147/242116

1145 **RBI Master Circular — Income Recognition, Asset Classification, Provisioning etc. (UCBs)** Reserve Bank of India, *Master Circular – Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs*, July 1, 2011 (RBI/2011-12/48) (consolidated guidelines)

1146 ibid

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]
VOLUME 6 AND ISSUE 1 OF 2026
APIS – 3920 - 0001 *(and)* ISSN - 2583-2344
Published by
Institute of Legal Education
https://iledu.in

The 90-day benchmark was adopted to harmonize India's practices with global standards and has been operative since March 2004. This is to ensure that banks do not unduly avoid recognising the stress loans by granting extensions or leniency indefinitely.

In addition to term loans, several credit facilities and risks are included by the RBI's classification:

- For overdraft/ cash credit accounts, an account is classified as NPA if it is "out of order", which occurs when the outstanding balance consistently exceeds authorized drawing powers 90 days or when the credits are insufficient to cover the debits and interests for 90 days, the account is categorized as non-performing.[1147]
- For bills purchased or discounted, the bill is NPA if it is overdue for more than 90 days.[1148]
- In agricultural lending, the norms are slightly relaxed, if a principal or interest payment is past due for one crop season or two crop seasons.[1149]
- For derivative contracts, the overdue receivables become non-performing if unpaid for 90 days from due date.
- In Securitisation or liquidity facilities, if the amount remains outstanding beyond 90 days, then it is also NPA.

RBI also prescribes that interest on NPAs should not be accrued on the books, which means banks can't recognise such income on accrual basis. Rather, the interest income must recognize only when actually received.[1150]

Once the loan is classified as a non-performing, it will be categorized based on the duration of non-performance and the assessed recovery prospects.

- Sub- Standard Assets: this when an asset remains non-performing for a period up to 12 months and it is classified as a sub-standard asset. These assets will exhibit credit weaknesses and are subject to moderate risk of loss unless it is improved.
- Doubtful Assets: If a sub-standard asset remains non-performing for more than 12 months, it will be classified as a doubtful asset. The probability of loss is higher and the recoverability depends heavily on the realization of the security of the financial viability of the borrower.[1151]
- Loss Assets: a doubtful asset will be classified as a loss asset, when it is considered by the auditor or the bank's internal review or RBI to have a little or no prospect of recovery. The loss is recognized and fully and written off.

NPA is not merely a technical accounting issue, they are the symptoms of bank health, financial stability and economic growth. The importance of NPAs is derived from the fact that the banks earn their revenues by deploying funds into productive credit. When the credit stops yielding, the business becomes stressed. In a bank-based economy like India, the banks remain the primary source of credit in various sectors like agriculture, industry, MSME and infrastructure. High NPAs choke the flow of credit, risk and weaken public confidence in financial system.

The NPAs erode the bank profitability[1152]. It becomes a burden on bank. When a non-performing loan ceases to earn income, the

[1147] **Consumer Education & Protection via PIB / RBI** Press Information Bureau, *Reserve Bank of India – Consumer Education and Protection*, (Jul. 18, 2023), https://www.pib.gov.in/PressReleasePage.aspx?PRID=1940419

[1148] Press Information Bureau, *[Title of Press Release]*, PRID 1576493, https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=1576493

[1149] ibid

[1150] Reserve Bank of India, *Master Circular on Income Recognition, Asset Classification, Provisioning & Other Related Matters – UCBs*, July 1, 2009, RBI/2009-10/93, https://www.rbi.org.in/commonman/english/scripts/Notification.aspx?Id=612

[1151] Bank of India, *Consumer Education*, https://bankofindia.bank.in/documents/20121/380921/Consumer_Education.pdf

[1152] Poojan N. Parikh, *A Study of NPAs and Its Impact on the Profitability of Selected Indian Public Sector Banks*, 6 Vidhyayana – An Int'l Multidisciplinary Peer-Reviewed E-Journal 1068 (2020)

banks must have to cover the expected losses, reduce the available distributable profits.

The studies confirm that the rising NPAs negatively correlated with return on assets and return on equity for Indian banks. As the capital is diverted for provisioning, the capacity to lend is further suppressed. As this continues, the high NPAs will end up pushing the bank towards the capital erosion.

Apart, from this the NPAs will impose liquidity will impose liquidity constraints on banks, dampen credit growth in the economy. As the banks face stress, can result in a credit crunch for the borrowers, as the bank will not be able to provide credit to the borrowers. Overall, the when the public sector banks carry the large NPA burdens, imposes the fiscal burden and divert the public funds from development expenditure to recapitalise the banks.

Let's look in the case of Lakshmi Vilas Bank (LVB), this bank is a private bank experienced the Gross NPA ratio rise sharply from 2.7% in 2017 to approximately to 17.3% by 2019. By June 2020 NPA was 25.4% of its advances. The bank further, also suffered negative return on assets for 2 consecutive years and had insufficient capital. Due to its high NPA, low capital, losses and high leverage, RBI placed LVB under the PCA in September 2019. Eventually, due to the inability to raise capital, deposit erosion and deterioration of asset value, LVB was put under the moratorium and merged with DBS Bank India, with its paid-up share capital was essentially written off. Due to this, it had cascading effects, where the depositor's lost confidence.

Similarly, the PMC Bank (Punjab & Maharashtra Co-operative bank), was found to have under-reported NPAs, due to its exposure to HDIL, defaulting in large sums (over 2500 Cr). Poor governance, improper information of bad loans led to the failure. The failure of this bank had the social and financial impact in the affected regions.

In the global level, the failure of Cyprus Banking Crisis, had a negative impact on the global economy, the investor confidence collapsed, foreign investments reduced and the fiscal stress increased.

Therefore, the impact of NPAs on the economy is serious. As it can act as a drag on investment and employment. In the Indian Context, since banking is central to financing infrastructure, NPA is indeed a bottleneck in realizing the higher growth trajectories.

THE RESERVE BANK OF INDIA:

RBI plays a very crucial role in regulating/controlling and handling the Non-performing Assets in India. It is India's central bank and principal regulatory authority for the country's banking and financial systems. It was established under the Reserve Bank of India Act, 1934, and began operating in April 1935. After India's independence, the RBI was nationalised in 1949.

The central office was initially in Kolkata, but it was permanently shifted to Mumbai in 1937. The governor sits in the central office, where policies are formulated.

In the dynamic landscape of the Indian economy, the RBI serves as the backbone, maintaining financial stability and promoting growth. RBI has a vital role in regulating the country's monetary policy to control the supply and strategies, issuing currency notes, and monitoring the banking system of India. The RBI gains its supervisory and regulatory powers from the RBI Act and from the Banking Regulation Act, 1949.

The preamble of the RBI lists out the basic functions of the RBI as

"to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy,

to maintain price stability while keeping in mind the objective of growth."

Under the Banking Regulation Act, the RBI has the power as the licensing authority to supervise and inspect banks, and to lay down norms for capital, reserves, management, ownership, and operations of banking companies, as well as for mergers and winding up. The RBI's prudential norms are derived from its regulatory supervisory roles under these laws.

These legal powers enable the RBI to enforce standards for risk management, cash ratios, solvency, and liquidity, as well as maintain governance in banks, protect depositors, and ensure balance in the financial system. During times of distress, the RBI has special powers under Sections 35AA and 35AB of the Banking Regulation Act to issue directions to banks during the resolution of stressed assets, which involves insolvency.

Apart from these powers, the RBI has legal powers to even initiate winding up or liquidation of banking companies under the BR Act. Therefore, in general. RBI's role is statutory, supervisory, preventive, regulatory, corrective, and intervenes in cases of financial distress, direct restructuring, and act in the interests of the Indian Economy.

The RBI has a pivotal role in insolvency matters in India. As mentioned earlier, Sections 35AA and 35AB of the BR Act collectively empower the RBI to issue directions to banking companies regarding stressed assets and to initiate insolvency resolution proceedings. Section 35AA was introduced through the Banking Regulation (Amendment) Act of 2017. The central government may, by order, authorise the RBI to direct any banking company to initiate the insolvency resolution process "in respect of a default".[1153] Section 35AB grants RBI the power "without prejudice to Section 35A" to issue directions for the resolution of stressed assets, including the authority to advise banks in this process.[1154]

Section 35A generally empowers RBI to issue directions to banking companies for "matters related to or connected with banking policy, banking business, public interest or interests of depositors." From the practical aspect, the RBI has attempted to use the powers to restrict regulatory forbearance and to recognise the distressed debt early.

RBI'S PRUDENTIAL NORMS

'Prudential Norms' are the regulatory rules and guidelines established by Reserve Bank of India, designed to ensure banks operate safely, soundly and robustly. They specify how banks should make provisions to cover anticipated losses classify their assets based on risks or performance, recognize income, manage liquidity and handle other risks. In short, prudential norms ensures transparency, limit excessive risk-taking, protect depositors, and maintain financial stability

The guidelines and general norms are set by the regulating bank for proper and accountable of a bank and bank-like establishments. These norms were introduced by RBI in 1992-93 FY.

RBI, first implemented a health-code system for classifying advances on 1st April, 1980. Under that regime, banks assigned "health codes" to individual loan accounts to determine the appropriate level of provisioning for bad debts. In April 1992, the RBI introduced a risk asset ratio framework, applying risk-weighting to bank assets including those of foreign banks operating in India.[1155] With the adoption of prudential norms in 1992, the health-code systems lost its status as a focal point of supervisory oversight. RBI ceased its health-code reporting, if it is used to banks' internal discretion. Since then, the RBI has periodically released revised master circulars consolidating the evolving guidelines, instructions and

[1153] Banking Regulation Act, 1949 § 35AA (India).

[1154] Banking Regulation Act, 1949 § 35AB (India).

[1155] Reserve Bank of India, *Master Circular – Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances*, DOR.STR.REC.9/21.04.048/2025-26, Apr. 1, 2025 (India).

amendments on Income Recognition, Asset Classification and Provisioning.

Under RBI's framework, prudential norms require that banks adopt objective criteria for recognizing income and classifying assets, rather than relying on subjective on subjective or discretionary judgements. As the RBI's master circular states, the policy of income recognition should be "based on the record of recovery rather than on subjective consideration."[1156]

Under the RBI's *Prudential Norms on Income Recognition, Asset classification, and Provisioning pertaining to Advances,* banks must identify the early signs of financial stress in borrower accounts and classify them as *Special Mention Accounts* before they potentially turn into NPA. According to these prudential norms, income should be recognized strictly on cash basis rather than on accrual basis once an account becomes NPA.

Income Recognition: A crucial principle is that once a loan or advance turns non-performing, interest accrual must cease, and interest can be recognized only when it is actually realized in cash. If a loan becomes an NPA, any interest previously accrued but not received must be reversed from income, to avoid overstating profitability. Banks may maintain a memorandum account for such reversed interest, but it cannot be counted in gross advances.

For asset classification, banks are obligated to make provisions based on how long as asset has remained non-performing and its recoverability potential. These norms mandate that interest should not be debited to NPA unless the realization occurs, even for government guaranteed advances. Loans are classified into categories such as standard, sub-standard, doubtful, loss etc., depending on how long payments or interests are overdue, the prospects of recovery, and the quality of collateral, among another parameter.

Provisioning: Once classification is done, banks must set aside provisions against expected losses. The provisioning escalates with the classification.

- Standard assets carry a lower "general provisioning" requirement.
- Sub-standard and doubtful assets require "higher provisioning"
- Loss assets require "full provisioning" or write-off

In case of unsecured assets, the norms require 100% provisioning for doubtful assets whose realizable value is negligible.

If the restructured resolution plan is delayed in implementation beyond the given timelines, the norms will require additional provisioning. In order to enforce discipline in turnaround timelines there are "penalty provisions".

Overall, the prudential norms ensure the regulatory discipline in the banking sector's treatment of credit risk. By mandating the recognition of non-performance, strict classification rules and provisioning these norms aims to prevent the non or less reporting of bad loans.

RBI's clarification through *Notification 2021-2022/158* reinforced the definition of an "out of order" account that applies to the overdraft and cash credit facilities. It specified that a borrower's account can be upgraded to NPA to standard once all arrears of principal and interest across all facilities are cleared.

Importantly, the RBI emphasizes that the *policy of income recognition should remain objective and grounded in actual recovery records rather than subjective judgment*. Accordingly, banks are urged to design *realistic repayment schedules* based on the borrower's projected cash flows to facilitate timely repayments and improve overall recovery performance.

POST-2015 PRUDENTIAL REFORMS & REGULATORY REFORMS:

After the historical evolution of prudential norms, the post- 2015 period marked a transformational phase in India's banking

[1156] Ibid

regulation, especially in relation NPAs. The RBI used multiple measures, AQR, IRAC updates, PCA, legal reforms including IBC, write-offs, recoveries etc., in order to ensure transparency, promote asset classification, ensure provisioning and clean bank balance sheets.

Some of the major reforms adopted post-2015 include:

- Asset Quality Review (AQR) {2015}

  It was for clean and fully provisioned bank balance-sheets showed the high NPAs. The RBI launched AQR in 2015 to compel the banks to examine their loan portfolios for hidden stress, to reclassify non-performing. The expected losses on stressed loans were previously not covered by the flexibility granted to restructured loans were covered as a result of AQR. As a result of transparent recognition of gross NPAs of PSBs, as per RBI, rose from Rs. 2,79,016 Cr as on 31.03.2015 to Rs. 6,84,732 Cr as on 31.03.2017 to Rs 8, 95, 601 Cr as on 31.03.2018.

  And due to the Government's 4R strategy

  Recognition
  Resolution
  Recapitalisation
  Reforms

  Lead to decline in NPAs.

  AQR compelled the banks reclassify non-performing or restructure assets properly, withdraw certain schemes, and create provisions for expected losses. The imitative supported Central Repository of Information on Large Credit, to improve data on borrower indebtedness.

  The RBI ended its "forbearance" in April 2015 and AQR was initiated to enforce stricter recognition. The AQR was conducted during 2015-16, to complete reclassification.

  But certain issues and challenges were, due to immediate spike in NPAs severally impacted the bank profitability and the smaller and weaker banks struggled reclassify and provision fully.

  The effectiveness of RBI's prudential norms in reducing NPAs can be illustrated through selected case studies of major Indian banks, highlighting how regulatory interventions reshaped asset quality and financial discipline.

- Income Recognition, Asset Classification, and Provisioning (IRAC)

  IRAC norms are the core prudential rules under which banks must recognize interest, income, classify advances into standard, substandard, doubtful, or loss categories and provision accordingly.

  Post- 2015, RBI progressively tightened IRAC norms, reducing discretion, clarifying definitions. Placing stricter norms for restructured assets. The concept of "out of order" accounts, when advance account does nor remain regular for 90 days, is strictly defined. Use of SMA categories to identify early stress before actual NPA recognition.

  RBI issues updated master circulars consolidating all guidelines, revisions, and clarifications up to a date. With clearer norms, RBI, auditors, boards and external stakeholders have clearer basis to challenge mis-classification and NPAs. The non-compliance could draw supervisory attention under RBI's framework.

  These norms were enforced circulars and notifications which bind the banks. Banks are legally required to comply.

- Prompt Corrective Action (PCA)

  PCA is a supervisory mechanism allows RBI to intervene early when banks breach thresholds of risk. The aim is to prevent deterioration into failure to guide corrective action.

  The revised PCA framework was introduced in April 2017, based on the bank financials as of 31.03.2017.

  RBI circular DBS.CO.PPD.BC. No.8/11.01.005/2016-17 dated 13.04.2017,

laid out the revised PCA. In November 2021, the RBI revised the PCA further, the new became effective on 01.01.2022. Under that revision, "Return on Assets" was dropped as a trigger parameter and focused on capital, asset quality and leverage.

RBI has introduced PCA, for Urban Co-operative Banks effective 01.04.2025 replacing the earlier Supervisory Action Framework.

- Government's 4Rs Strategy (Recognition, Resolution, Recapitalization, Reform)[1157]

  The 4Rs strategy was the government's policy response to the banking stress problem, coordinating with RBI's regulatory push. The idea was to ensure recognition of stressed assets, resolution or recovery through legal or market means and provide support (capitally) to banks.

  Recognitions: to recognize the NPAs

  Resolution: Use IBC, SARFAESI, DRTs, asset reconstruction companies etc.

  Recapitalization: to strengthen public sector banks and enable them to absorb losses, the government injected fresh capital. Over 4 years, PSBs were recapitalized for over Rs. 3 lakh Cr.

  Reforms: The strategy includes structural reforms in the financial ecosystem for responsible lending and prevent future NPAs.

KEY TRENDS IN NPA {2015-2025}

The data shows that post-2015 shows the significant movement in the Gross NPA ratios, write-offs, recovery rates:

Gross NPA Ratios of PSBs and Scheduled Commercial Banks[1158]

Year	Gross NPS (Cr)	Ratio (%)
FY 2020-21	6,16,616	9.11
FY 2021-22	5,40,958	7.28
FY 2022-2023	4,28,197	4.97
FY 2023-2024	3,39,541	3.47
FY 2024-2025	2,83,650	2.58

The RBI report show the gross NPAs has declined steadily for past five years, to 2.30% as of March 2025 from 2.58% in September 2024.

Capital Adequacy: Improved capital has been an important component of prudential norms, enabling banks to absorb losses without much distress.

CRAR:

Improved capital buffers have been an important component of prudential norms, enabling banks to absorb losses without systemic distress.

Capital to Risk (Weighted) Assets Ratio (CRAR), is another indicated of improved resilience of PSBs

- In March PSBs' CRAR was: 11.45%
- By September 2024, CRAR had improved by 393 basis points, reaching 15.43%.[1159]

This improvement reflects the recapitalization and stricter regulatory standards and better risk managements in banks.

Slippage Ration & Recovery Rates:

Slippage ratio: measures how much fresh credit turns into NPAs over a period.

[1157] Press Information Bureau, Govt. of India, Comprehensive Steps Taken by the Central Government Under the 4R's Strategy to Reduce NPAs of Public Sector Banks, Press Release No. 1578985 (July 16, 2019), https://www.pib.gov.in/PressReleasePage.aspx?PRID=1578985

[1158] ETBFSI Staff, Public Sector Banks GNPA Plummets to 2.58% in FY25 from 9.11% in FY21, Says MoS Pankaj Chaudhary, ECONOMIC TIMES (July 22, 2025), https://bfsi.economictimes.indiatimes.com/articles/public-sector-banks-gnpa-plummets-to-258-in-fy25-from-911-in-fy21-says-mos-pankaj-chaudhary/122838237

[1159] Press Information Bureau, Ministry of Finance, Public Sector Banks: A Resurgent Force, Press Release No. 2084546 (Dec. 15, 2024), https://www.pib.gov.in/PressReleasePage.aspx?PRID=2084546

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]
VOLUME 6 AND ISSUE 1 OF 2026
APIS – 3920 - 0001 *(and)* ISSN - 2583-2344
Published by
Institute of Legal Education
https://iledu.in

Recovery Rate: is the proportion of stressed or written-off debt that a bank successfully recovers.

Year	Gross NPA	Ratio Slippage	Ratio Recovery Rate in Written off Loans %
31.03.2021	9.11	2.44	18.58
31.03.2022	7.28	2.35	21.37
31.03.2023	4.97	1.38	27.80
31.03.2024	3.47	1.13	32.60
31.03.2025	2.58	0.95	46.64[1160]

These figures, show that Gross NPA ratios have dropped significantly and the slippage ratio is also declining. At the same time, recovery rates from the written-off loans have shown significant improvement, the improvement to 46.64 for written off loans in particularly notable.

Write-offs

The write-off are the steps where the provisioned NPAs are removed from the bank's balance sheet. While write-offs reduce Gross NPA ratios, they are the different from actual cash recoveries.

FY	Written-off loans	Recovery in written-off loans
2020-21	1,33,384	24,781
2021-22	1,15,748	24,739
2022-23	1,27,238	35,378
2023-24	1,14,622	37,369
2024-25	91,260	42,563[1161]

Under the IBC, in FY 2024-25, creditors recovered Rs. 67,000Cr via corporate resolutions, which was up to 42% from FY 2023-24. The resolutions under the IBC have significantly contributed to reduction in NPAs.

ANALYSIS

The data show the strong correlations with the timings of regulatory reforms. Below is an analysis on how the prudential norms appear to have influenced the data.

Effect of AQR:

The AQR introduced in 2015-16, led the banks to reclassify restructured standard assets and recognise the bad debts more transparently. Immediately after introducing this the GNPA ratios shot up as hidden NPAs, were discovered. Over the time, the stricter IRAC norms and legal tools recognitions was no longer not recognized. The subsequent decline in the Gross NPA ratios from 2018 onwards reflects both this clearing of stressed assets and effect the resolution.

Gross NPA, was around 14.5% to 15% in 2018, which by 2025 is now 2.58%.

The sharp fall in the slippage ratio and the fact that the fewer new loans are slipping into default, correlated with more rigorous underwriting and risk assessment under IRAC and monitoring norms.

The stricter provisioning under the revised IRAC norms, has improved the capital adequacy rising from 11.45% to 15.43%.

These shifts reflect a combination of balance sheet clean-ups, legal recovery and improved credit culture. The steep decline in slippage ratios indicates the newer lending is encountering fewer defaults, because banks have strengthened underwriting, monitoring, internal control due to the pressure of RBI's tighter norms. The falling slippage suggests that prudential norms are not only handling the legacy NPAs but also is preventing the fresh deterioration.

Simultaneously, rising recovery rates written-off assets is a positive sign of enforcement effectiveness. In FY 2024-25, nearly half of written-off amounts were recovered, implying

[1160] Shri Pankaj Chaudhary, Minister of State in the Ministry of Finance, Loan Recovery in Public Sector Banks, Rajya Sabha Unstarred Question No. 2618 (Aug. 12, 2025), https://sansad.in/getFile/annex/268/AU2618_M0GiXF.pdf?source=pqars

[1161] ibid

that legal and resolution mechanisms are gaining traction.

The relative contributions of write-offs versus actual recovery must be closely checked. A low recovery rates in earlier years means write-offs did not match to cash inflows. The high recovery in FY 2025 is encouraging, but over the 5 years, cumulative recoveries are unlikely to match the cumulative write-offs. This suggests that the prudential norms have forced recognitions and the "clean up", the problem of realizing security remains partially unresolved. The bank face difficulties in actual recovery due to the litigation, promoter resistance, asset valuation, etc.

But it is important to note, that the data available is only up to March 2025, are provisional for recovery, and also some sectors are with stubborn stress and may still hide the pockets of trouble. Some banks, particularly private or smaller ones, may still have less rigorous implementation of norms due to capacity constraints. Also, external pressures may affect classifications or resolution. Even with strong norms, sectors facing systemic problems which may generate large NPAs.

Further, Under the IBC, creditors often have to end up accepting the large haircuts. With better than no recovery, these may still undermine full creditor expectations.

The State Bank of India experienced a significant rise in NPAs after the implementation of AQR in 2015-16. Although the this increased the gross NPAs, it improved the balance sheet integrity and enhanced provisioning. By 2025, SBI's gross NPAs3% reflecting the effective credit monitoring. Likewise, even in Punjab National Bank, the gross NPAs reduced from 14% in 2018 to 5% in 2025. Conversely, LVB as a result of weak compliance with prudential norms, despite warnings the bank failed to maintain adequate capital. Its gross NPA soared over 25%, prompting the RBI to place it under PCA and eventually merge it with DBS Bank India.

Putting the data together,

The post-2015 prudential norms have, in aggregate been effective in reducing NPAs of Indian Banks significantly. The evidence suggests that the reforms didn't just lead to reclassification but actual resolution and recovery. They have curbed fresh stress, improved recoveries and enabled PSBs to lower their bad loans ratios to historically low levels.

CONCLUSION

The analysis of the post-2015 prudential norms demonstrate clear trajectory of financial stability and improved asset quality in the Indian banking sector. The data evidences a substantial decline in Gross NPAs from a peak of nearly 15% in 2018 to 2.58% in 2025, reflecting the cumulative effect of the AQR, PCA and IRAC norms.

These measures compelled banks to identify, disclose and provision for stressed assets with transparency, thereby ending the era of regulatory forbearance and hidden NPAs. The implementation of AQR, helped recognition of losses, while PCA enforces discipline mechanisms. Moreover, the rise in capital adequacy and declining slippage ratios underscore the growing resilience of banks under the supervision. The reforms have shifted the focus from reactive clean-up process to preventive credit risk management, improving the credit discipline.

However, the challenges in ensuring the uniform compliance, minimizing excessive write-off, and achieving recoveries and balance sheet improvements. The smaller and weaker banks continue to face the issues in complying with the prudential norms.

However, the RBI's prudential framework has proven effective not only in reducing NPAs and but also preventing the creating new ones. The reforms signify the evolution of India's banking regulations, therefore moving towards the robust foundation of long-term financial stability and confidence on the Indian banking system.