

IMPACT OF FINANCIAL CRISIS – A STUDY WITH SPECIAL REFERENCE TO NON-PERFORMING ASSETS OF INDIAN COMMERCIAL BANKS

E. CHITRAI BANU¹ and Dr. I. PREMROSE THAYYAMMAL²

ABSTRACT

The main aim of the study is to evaluate the impact of the rising NPAs in the scheduled commercial bank in India and the loans and advances of SCBs before and after global financial crisis. Since the present study has its own predetermined objectives and methodology, it is both descriptive and analytical in nature. The study has made an attempt to find the impact of global financial crisis on Non-Performing Assets in the scheduled commercial banks of India. For this study the annual reports of the scheduled commercial banks are collected. Various ratios related to banks are taken for the study. It is identified that there is no significant difference exists in the GNPA of the scheduled commercial banks before and after the global financial crisis. It is found that there is no significant difference exists in the NNPA of the scheduled commercial banks before and after the global financial crisis. Indian banking system faced a sluggish performance in the year 2009-10 that is the period after the crisis. The trend and progress reports concluded the Indian banking system has withstand the shocks of the financial crisis but on the other hand it has impacted by the slowdown of the economy affected by the crisis. It faced problems in raising the asset quality and also had slow deposit growth. Scheduled commercial banks' gross NPAs as ratio to gross advances increased in the year 2009.

KEY WORDS: Scheduled Commercial Banks, Global Financial Crisis, Loans and advances and Non-Performing Assets

INTRODUCTION

Banking sector play a vital role in growth and development of Indian economy. After liberalization the banking industry in India has under gone major changes. The process of liberalization and globalization has strongly influenced the Indian banking

¹ Research Scholar, Full-Time, (Reg. No. 17212231012017) Department of Commerce, C.S.I Jayaraj Annapackiam College, Nallur – 627853. Affiliated to Manonmaniam Sundaranaar University, Abishekapatti, Tirunelveli. TamilNadu. E.mail: christiecaro1983@gmail.com Orcid Id : 0000-0002-3096-4463.

² Research Guide & Co-Ordinator, Head and Associate Professor, Department of Commerce, C.S.I Jayaraj Annapackiam College, Nallur – 627853. E.mail: ipremrose@gmail.com

sector. A stable and efficient banking sector is an essential precondition to increase the economic level of a country. Liberalization policy introduced in the banking sector in India led to consolidated competition, efficient allocation of resources and introducing innovative methods for mobilizing of saving. The ability of banks is to analyze its financial position for improving its competitive position in the market place.

STATEMENT OF THE PROBLEM

US recession resulted global economic slowdown and has impacted all sectors which translated into banking and financial sabotage and led into further global economic chaos. All the respective economies associated with US have more or less experienced the heat of US slowdown. India also faced the heat of US recession in control parameters especially in export and import and in FDI. Indian banking industry was also hit and resulted increased bad loan and NPAs. Thus it became paramount to analyze the severity of recession on Indian banking industry. In order to analyze the global financial crisis and its impact on Commercial Banks in India various indicators related to banking has to be analyzed using modern techniques and tools.

OBJECTIVES OF THE STUDY

1. To evaluate the impact of the rising NPAs in the scheduled commercial bank in India
2. To know the loans and advances of SCBs before and after global financial crisis

METHODOLOGY

Since the present study has its own predetermined objectives and methodology, it is both descriptive and analytical in nature. The study has made an attempt to find the impact of global financial crisis on Non-Performing Assets in the scheduled commercial banks of India. For this study the annual reports of the scheduled commercial banks are collected. Various ratios related to banks are taken for the study.

HYPOTHESES

The following hypotheses were framed for the study.

- i. There is no significant difference exists in the GNPA of the scheduled commercial banks before and after the global financial crisis.
- ii. There is no significant difference exists in the NNPA of the scheduled commercial banks before and after the global financial crisis.

ANALYSIS AND INTERPRETATION

Table 1
GNPA of Scheduled Commercial Banks

Non-Performing Assets					
Year	Gross	Dummy	Year	Gross	Dummy
1999-00	604.08	1	2007-08	566.06	2
2001-01	637.41	1	2008-09	699.54	2
2001-02	708.61	1	2009-10	817.18	2
2002-03	687.17	1	2010-11	939.97	2
2003-04	648.12	1	2011-12	1369.68	2
2004-05	583.00	1	2012-13	1927.69	2
2005-06	517.53	1	2013-14	2630.15	2
2006-07	505.17	1	2014-15	3229.16	2
			2015-16	6116.07	2
			2015-17	7902.68	2
			2017-18	10,397	2

Table 1 shows the Gross non-performing assets of Scheduled Commercial Banks for the years from 2008-09 to 2017-18. Table highlights that the gross non-performing assets of scheduled commercial banks has been increased from 604.08 during the year 2008-09 to 10,397 in the year 2017-18.

Table 2
Model Summary - GNPA of Scheduled Commercial Banks

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.484 ^a	.234	.189	2561.52965

a. Predictors: (Constant), Dummy Variables

Table 3
ANOVA- GNPA of Scheduled Commercial Banks

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	34153923.200	1	34153923.200	5.205	.056^b
Residual	111544380.599	17	6561434.153		
Total	145698303.799	18			

a. Dependent Variable: GNPA

b. Predictors: (Constant), Dummy variables

Table 4
GNPA of Scheduled Commercial Banks - Coefficients^a

Model	Un standardized Coefficients	Standardized Coefficients	T	Sig.

	B	Std. Error	Beta		
¹ (Constant)	3326.871	772.330		4.308	.000
Dummy variables	-1.355	.594	-.484	-2.282	.056

a. Dependent Variable: GNPA

The above table shows the gross non-performing assets before and after the global financial crisis. Analysis is done using Multiple Regression mode, then the variables are categorized are to be converted into dummy variables with 1 and 2 coding. Generally code 1 stands for before global financial crisis (2000 – 2007). Code 2 stands for after global financial crisis (2008 – 2018). In this analysis k-1 dummy variable stands for the number of categories in the variables (before global financial crisis and after financial crisis). The outcome indicates the result in Table 4.18 as 3326.871 (a) + -1.355 (b1). The variables are related to the mean of Years (3326.871) and the difference with the Aggregate Deposits (-1.355).

From the multiple regression model,

GNPA of the scheduled commercial banks = 3326.871 -1.355(GNPA)

Adjusted R² = .189 R² = .234 F = 5.205 SE = 2561.52965

At 5 percent level of significance, *F* test shows the probabilistic significance as 0.056 which is higher than .05 (prescribed). Hence, the null hypothesis (H₀) is accepted. Hence, it may be concluded that there is no significant difference exists in the GNPA of the scheduled commercial banks before and after the global financial crisis.

The provisions for banks made during the year 2008 was higher the write back of additional provisions for all the banks. The outstanding provisions to gross NPA ratio declined for all the banks and the new private sector banks does not show any decline.

Table 5
Net Non- Performing Assets of scheduled commercial banks

Non-Performing Assets					
Year	Net NPA	Dummy	Year	Net NPA	Dummy
1999-00	300.73	1	2007-08	247.30	2
2001-01	324.61	1	2008-09	315.64	2

2001-02	355.54	1	2009-10	391.27	2
2002-03	296.92	1	2010-11	417.99	2
2003-04	243.96	1	2011-12	652.05	2
2004-05	214.41	1	2012-13	986.93	2
2005-06	185.43	1	2013-14	1426.56	2
2006-07	202.80	1	2014-15	1758.41	2
			2015-16	3498.14	2
			2015-17	4330.10	2
			2017-18	5,207	2

Table 5 shows the net non-performing assets of Scheduled Commercial Banks for the years from 2008-09 to 2017-18. Table demonstrates that the net non-performing assets of scheduled commercial banks have been increased from 300.73 during the year 2008-09 to 5,207 in the year 2017-18.

Table 6

Regression Analysis of Net Non- Performing Assets of scheduled commercial banks

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.494 ^a	.244	.200	1361.61602

a. Predictors: (Constant), Dummy Variables

Table 7

Net Non- Performing Assets of scheduled commercial banks - ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10184210.920	1	10184210.920	5.493	.062 ^b
	Residual	31517969.187	17	1853998.187		
	Total	41702180.107	18			

a. Dependent Variable: NNPA

b. Predictors: (Constant), Dummy Variables

Table 8

Net Non- Performing Assets of scheduled commercial banks - Co-efficients^a

Modelt	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1748.349	410.542		4.259	.001
Dummy variables	-.740	.316	-.494	-2.344	.062

a. Dependent Variable: NNPA

The above table shows the net non-performing assets before and after the global financial crisis. Analysis is done using Multiple Regression mode, then the variables are categorized are to be converted into dummy variables with 1 and 2 coding. Generally code 1 stands for before global financial crisis (2000 – 2007). Code 2 stands for after global financial crisis (2008 – 2018). In this analysis k-1 dummy variable stands for the number of categories in the variables (before global financial crisis and after financial crisis). The outcome indicates the result in Table 4.20 as 1748.349 (a) + -.740 (b1). The variables are related to the mean of number of Years (1748.349) and the difference with the net non-performing assets (-.740).

From the multiple regression model,

NNPA of the scheduled commercial banks = 1748.349 -.740

Adjusted R² = .200 R² = .244 F = 5.493 SE = 1361.61602

At 5 percent level of significance, *F* test shows the probabilistic significance as 0.062 which is higher than .05 (prescribed). Hence, the null hypothesis (H₀) is accepted. Hence, it may be concluded that there is no significant difference exists in the NNPA of the scheduled commercial banks before and after the global financial crisis.

The NPAs of the priority sector showed a decline when compared to the non priority sector. This is due the debt waiver schemes by the central government to the farmers. The sharp increase in the NPAs of non priority sector was due to the slowdown of the economy and the stressed financial conditions of the corporate.

Table 9

Loans and Advances of SCBs before and after global financial crisis

Year	Loans and Advances	Growth Rate
------	--------------------	-------------

1999-00	4434.69	-
2001-01	5356.83	20.79
2001-02	6457.43	20.54
2002-03	7392.33	14.48
2003-04	8641.41	16.89
2004-05	11508.36	33.17
2005-06	15168.10	31.80
2006-07	19812.35	30.62
2007-08	24769.36	25.01
2008-09	29999.24	21.11
2009-10	34967.20	16.56
2010-11	42974.88	22.90
2011-12	50735.59	18.06
2012-13	58797.73	15.89
2013-14	67352.13	14.55
2014-15	73881.60	9.69
2015-16	78964.67	6.88
2016-17	81,161.97	2.78
2017-18	87,460	7.76

Source: <https://www.rbi.org.in/>

Table 9 shows the loans and advances of SCBs before and after global financial crisis for the years from 2000-01 to 2017-18. Table highlights that the loans and advances of the scheduled commercial banks has increased from 4434.69 in the year 1999-00 to 87,460 in the year 2017-18. Table reveals that the growth rate of aggregate deposits of the scheduled commercial banks has decreased from 20.79 in the year 2000-01 to 7.76 in the year 2017-18.

SUGGESTIONS

- High non-performing assets of Public sector banks is an alarming note that they have to find cautious approach of lending and assured collection of debts in time

for which a multifaceted approach like careful assessment of potential borrowers, continuous monitoring and follow up of customers, timely collection procedures through advance reminders and the like., is very much essential.

- The banks need to lay focus on the management efficiencies as management is the only criteria which can manage all the other elements of the performance.

CONCLUSION

Indian banking system faced a sluggish performance in the year 2009-10 that is the period after the crisis. The trend and progress reports concluded the Indian banking system has withstand the shocks of the financial crisis but on the other hand it has impacted by the slowdown of the economy affected by the crisis. It faced problems in raising the asset quality and also had slow deposit growth. Scheduled commercial banks' gross NPAs as ratio to gross advances increased in the year 2009. In spite of the weakening of the asset quality of the banks, capital to risk weighted assets ratio of the scheduled commercial banks remained strong, and it was also above the regulatory minimum even after the migration to Basel II framework. This provided the banks sufficient cushion for the emerging losses. The profitability ratio return on assets was low in the year 2009 when compared to the previous year. The analysis of the scheduled commercial banks report during the year 2009 and 2010 is very important as it helps to study and learn the extent of the medium and long term impact in the Indian banking sector due to the global financial crisis.

REFERENCES

1. Piyush, P. and Goel, S. (2018). Measurement of Correlations of different banks and trend analysis in NPAs of Indian banks. *International Journal of Management*, 8(6), pp.81-88.
2. Neelam S. Pandya (2019). Non-Performing Assets (NPA) and its impact on different segments of banking sector: a comparative study. *International Journal of Applied Research*, Vol.9, Issue.9, doi: 10.36106/ijar.
3. Nida Iqbal Malik, Subhan Ullah, Kamran Azam and Anwar Khan (2019), "The Impact of Recent Global Financial Crisis on the Financial Institutions in the Developing Countries: Global Perspectives. *International Review of Business Research Papers*, Vol. 5, No.5, pp.85-95.
4. Pooja Rana (2016). Analysis of Non-Performing Assets of Public Sector Banks in India. *International Journal of Advance Research in Computer Science and Management Studies*, Vol.4, Issue.6, June 2016, ISSN: 2321-7782 (Online).

