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Analysis of Non-Performing Assets and Factors Influencing the Restructuring of Indian Public Sector Banks

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Abstract: *The recent restructuring of Public Sector Banks (PSBs) has generated significant interest among various economic stakeholders, including as investors, depositors, borrowers, bank staff, and the executive teams of the merging organizations. Depositors aim to ensure their financial stability, while borrowers from merging companies are looking for other loan choices that provide reduced interest rates and faster processing. Investors will prioritize a higher rate of dividend payments and an appreciation in the value of their assets, while employees would prioritize the enhancement of working conditions. The senior leadership will want greater independence to effectively oversee and operate their diverse banks, with the aim of expanding and maximizing profitability. The initial Narasimham Committee proposed in 1991 that robust banks should merge. After an extensive period of 28 years, the Indian government finally acted upon the committee's vital recommendation. The substantial quantity of non-performing assets (NPAs) maintained by public sector banks and the subsequent need for their frequent recapitalization are commonly believed to be the reasons for this sluggish response. Any government that regularly provides more capital to public sector banks (PSBs), while also being the majority shareholder and having full administrative control over their boards and senior management, is participating in a moral hazard and engaging in poor economic practices. The allocation of taxpayer funds, which are intended for the economic development of the country, to support Public Sector Banks (PSBs) in meeting the regulatory capital requirements set by international standards and the provisioning needs mandated by the Reserve Bank of India, is questionable. The government's objective for the merger is to enhance the size and global competitiveness of PSBs, while also improving their access to capital markets for funding purposes. The need to restructure Public Sector Banks can be ascertained by examining the increase of Non-Performing Assets (NPAs) and the subsequent financial deterioration of PSBs over time, as it may be necessary to implement similar government interventions in the future. The determination of whether the Government of India's restructuring legislation will result in the creation of globally powerful "too big to fail banks" will depend on the improvement in financial performance indicators of PSBs in the coming years.*

Keywords: stakeholders, recapitalization, government, restructuring, NPA