

DO NON-PERFORMING ASSETS IMPEDE INCLUSIVE GROWTH? A COMPARATIVE ANALYSIS OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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Article Info	ABSTRACT
Article History: Received: 15 th Dec 2025 Accepted: 18 th Dec 2025 Published: 20 th Dec 2025	Credit forms are the backbone of the financial system. The RBI has implemented a crucial initiative to lend to sensitive sectors of the economy, such as agriculture, micro-enterprises, and weaker sections. This study mainly focuses on the differential analysis of non-performing assets in public and private sector banks in India and their impact on inclusive lending from 2017 to 2024. The study observed a declining trend in NPAs for both bank groups. A significant difference in NPA levels was observed between public and private-sector banks. Large dispersion in NPA was observed for public sector banks, whereas relatively less heterogeneity was seen across private sector bank groups. A significant adverse relationship was found between NPA and inclusive indicators. Therefore, there was an impact on financial inclusion, suggesting that NPA is a barrier to future lending capacity.
Keywords: NPA, PSL, Public Sector, Private Sector, Inclusion.	

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INTRODUCTION:

The banking sector plays a crucial role in the smooth functioning of the other sectors of the economy. For the overall development of the economy, a healthy banking system is essential. The Indian banking sector has undergone numerous transformations, including recapitalisation, globalisation, liberalisation, bank mergers, policy reforms, and, as a major focus, financial inclusion. To achieve financial inclusion, many initiatives were undertaken, such as expanding bank penetration, opening Jan Dhan accounts, and introducing no-frills accounts, etc. Considering these initiatives, priority-sector lending by banks also plays a major role in achieving financial inclusion. While lending in the priority sector, one consistent challenge is that the banking sector remains burdened by non-performing assets, which undermines asset quality and bank stability. Hence, NPA can reduce earnings and burden bank profitability. It may hamper priority-sector lending and again limit the achievement of the goal of financial inclusion. This NPA differs significantly between public and private-sector banks. The RBI has mandated that banks should provide the majority of credit, especially for the priority sector. Therefore, analysing the NPA divergence in both the public and private sectors of banks is necessary for inclusive lending.

Priority sector lending (PSL) is a framework in which the government mandates that banks lend a certain amount of credit to priority sectors. Public sector banks have to lend 40% of adjusted bank credit to priority sectors. PSL sub-sectors were introduced in 1972. The revised priority sub-sectors include agriculture, small and marginal farmers, non-corporate individual farmers, micro-enterprises and the weaker section. Hence, PSL is linked with financial inclusion as regulated credit flow, access under one roof, large participation etc. For inclusive growth, the government has implemented a mandate lend to PSL and a financial inclusion policy. However, the sustainability of credit will depend on the quality of the assets banks have. The burden of NPA will affect banks' profitability and, in turn, the priority sector lending. It may reduce the flow of credit from banks. Hence, understanding the trend of NPA across bank groups and its impact on inclusive lending, it is necessary for policymakers, bankers, etc.

Many studies have examined comparative NPA across public and private sector banks, but very few have examined NPA alongside inclusive lending. Hence, in light of the above discussion, the present paper aims to fill a research gap by conducting a comparative analysis of NPA in the public and private sectors and their impact on inclusive lending for the period 2017-2024. The present study is organized into the following sections. The first section introduces the study. Next is the second section, followed by a review of the literature. The third section describes the data & methodology used for the study. The fourth section explains the results and discussion. Finally, the fifth section presents the study's conclusion.

REVIEW OF LITERATURE:

A pertinent literature focuses on the differential analysis of non-performing assets and their impact on inclusive lending. Non-performing assets are a major challenge for the banking sector as they destroy the health of the balance sheet. Non-performing assets are highly associated with banks' profitability indicators. Non-performing assets are significantly affecting banks' profitability (Das & Uppal, 2021). Operational costs and ROA exhibit an adverse relationship with NPA, while NIM and a higher percentage of secured loans exhibit a positive association with it. Moreover, interest income was negatively associated with NPA for public sector banks. Due to operational efficiency and a positive relationship

between NIM and NPA among private sector banks, risky lending practices aimed at maximising profit were observed (Das, 2021). As reported by Bhartia & Rai (2024), there was a significant difference between the non-performing assets of public and private sector banks in India. Public sector banks have higher NPA than other bank groups (Kanauiya, 2024; Singh & Kanyan, 2020). According to Das (2021), weak earnings management was a key factor in higher NPA for public sector banks, especially after 2013. However, Harani & Mutyala (2019) attribute the burden of NPA to the weave-off, political influence, and wilful defaulters. Financial inclusion significantly influenced both macro and bank-specific variables across Indian states (Lakshmana Samy, 2020). (Srivastava, Mohanty, & Kesari, 2025) examined the impact of financial inclusion on bank stability in the Indian banking system, focusing on the Pradhan Mantri Jan Dhan Yojana. Bank stability and financial inclusion were positively related. Moreover, bank size was positively associated with prov_NPA.

GNPA demonstrated an insignificant adverse relationship with priority sector lending (Panda, Panda, & Swain, 2017). Kanauiya (2024) finds that public sector banks lend larger amounts, while private sector banks have a higher annual growth rate. Public sector banks lend more to the agriculture sector, and greater variability was observed in the weaker section. The share of credit provided to PSL by public sector banks was higher than that by private sector banks. MSMEs and the weaker section of the private sector bank performed better than the other sub-sectors of the PSL (Koley, 2025). According to (Singh & Kanyan, 2020), the non-priority sector NPA exceeded the priority sector NPA, underscoring the importance of PSL lending. However, for private sector banks, NPA was higher in the priority sector. In contrast (Kumar & Prakash, 2018) findings indicate that NPAs were higher in the non-priority sector for both public- and private-sector banks. It was found that priority-sector NPA was due to crop yield, Farm size, and uncertain economic shocks. In contrast, the non-priority sector was due to global and business-cycle changes. The importance of lending to the priority sector is vital for development (Singh & Kanyan, 2020; Panda, Panda, & Swain, 2017). The overall amount was lent by the public sector to PSL, but through innovations, the private sector is capturing demand. Hence, (Kanauiya ,2024) suggested that public-sector banks adopt innovative lending to capture market demand and requirements for balanced policy strategies to leverage (Koley,2025).

DATA & METHODOLOGY:

The study is purely based on secondary data. For trend analysis of NPA, both gross and net values have been considered. To compare NPA with inclusive growth, data on priority sector lending and its components have been collected. The study spans eight years, from 2017 to 2024. Data were obtained from the RBI's database on the Indian economy. Descriptive statistics have been calculated. Moreover, a t-test has been used to analyse differences among bank groups. Correlation analysis has been carried out to estimate the relationship.

RESULTS AND DISCUSSION:

The results and discussion section highlights the gross and net NPA of public and private sector banks, as well as a comparison of Priority Sector Lending across these banks.

Table 1: Gross and Net NPAs of Public and Private Sector Banks

Year	Public sector				Private sector			
	Gross NPA (in Rs.Cr.)	Gross NPA Ratio (in %)	Net NPA (in Rs.Cr.)	Net NPA Ratio (in %)	Gross NPA (in Rs.Cr.)	Gross NPA Ratio (in %)	Net NPA (in Rs.Cr.)	Net NPA Ratio (in %)
2017	684732	11.66	383089	6.89	93209	4.11	47780	2.15
2018	895601	14.58	454473	7.98	129335	4.74	64380	2.42
2019	739541	11.59	285122	4.84	183604	5.33	67309	2.02
2020	678317	10.25	230918	3.75	209568	5.55	55683	1.54
2021	616616	9.11	196451	3.09	197508	4.82	55377	1.41
2022	542174	7.29	154745	2.20	180769	3.85	43738	0.96
2023	428197	4.97	102532	1.24	125214	2.29	29507	0.55
2024	3,39,541	3.5	72544	0.8	1,29,164	1.9	31594	0.5
CAGR	-0.10	-0.16	-0.21	-0.26	0.05	-0.10	-0.06	-0.19

Source: Data Base on Indian Economy, RBI

Table 1 presents the patterns of gross and net NPA for public and private-sector banks in India. Gross NPA of public sector banks started declining, especially after 2018. Similarly, the ratio of net NPA decreased from 8% to 0.8%. This was due to the implementation of the Insolvency and Bankruptcy Code (IBC) in 2016. Unlike private-sector banks, gross NPA increased in absolute terms from 2017 to 2024, but the gross NPA ratio decreased, suggesting faster growth in advances and better risk management. Additionally, the value of net NPA fell, confirming that private-sector banks also contributed to this improvement by strengthening provisioning and recoveries. The positive CAGR in gross NPA levels, alongside the decline in the gross NPA ratio, suggests that faster credit growth leads to NPA growth and indicates a relatively cleaner balance sheet.

Table 2: Descriptive statistics

	Public Sector		Private sector	
	GNPA	NNPA	GNPA	NNPA
Mean	615589.9	234984.3	156046.4	49421
Standard deviation	176956.6	133360	41900.55	13978.54
Minimum	339541	72544	93209	29507
Maximum	895601	454473	209568	67309

Table 2 represents descriptive statistics for public and private-sector banks in India. The average of gross and net NPA for public sector banks was higher than that for private sector banks. According to (Singh & Kanyan, 2020) it was due to various macroeconomic and political factors. Furthermore, greater heterogeneity was evident among public-sector banks, whereas private-sector banks exhibited less dispersion. The maximum NPA level in public sector banks was substantially higher than in private sector banks, supported by (Singh & Singh, 2024). As a result, public sector banks remain under stress, while private sector banks demonstrate improved management practices.

DIFFERENCE ANALYSIS:

For the difference analysis of NPAs of public and private sector banks, we have applied the t-test of unequal variances. We have formulated the following hypothesis.

H₀: There was no significant difference between public and private sector banks' NPA.

H₁: There was a significant difference between public and private sector banks' NPA.

Table 3: t-test for unequal variance

	T stat	p- value
GNPA	2.31	0.00
NNPA	2.36	0.006

The t-statistic value for GNPA is 2.31, and the p-value was 0.00, which is less than 0.05. Hence, we are rejecting the null hypothesis. Therefore, a significant difference in gross NPA was observed between public and private sector banks. Similarly, the p-value for NNPA was 0.006, which was less than 0.05. Hence, we reject the null hypothesis again. Therefore, a statistically significant difference in NPA was observed between public and private sector banks.

Table 4: Priority Sector Lending Comparison

Year	Public Sector						Private Sector					
	Total PSA	Agri	S & M	Non-c	Micro E	Weaker	Total PSA	Agri	S & M	Non-c	Micro E	Weaker
2017	39.5	18.3	8.7	12.5	6.3	11.4	42.5	16.5	5.5	10.5	8.3	9
2018	39.9	18	8.9	12.8	6.4	11.5	40.8	16.2	6.1	10.8	7.9	9.5
2019	42.55	18.12	8.83	12.56	7.32	11.73	42.49	16.31	6.94	11.13	7.92	10.63
2020	41.05	17.23	9.11	12.63	7.03	12.13	40.32	15.96	7.27	10.94	8.03	10.78
2021	41.06	18.15	9.4	13.07	7.11	12.37	40.62	15.01	6.82	10.31	8.3	10.14
2022	42.9	19.15	10.5	14.97	7.17	13.41	43.71	16.14	7.44	10.78	8.26	10.03
2023	43.7	19.7	11.4	15.4	7.8	14.4	45.03	17.5	8.5	12.8	8.9	11.5
2024	42.6	19.1	11.2	14.8	8	14.1	47.04	18.7	10	14	10.2	12.5

Source: Report on Trend and Progress of Banking in India

The table 4 represents the share of priority sector lending and its components of public and private sector banks in India. Public sector banks consistently met the government's overall target, whereas private sector banks also indirectly satisfied it through indirect methods. Share of lending to agriculture, small and marginal farmers, non-corporate and weaker section sectors was dominated by public sector banks, while private sector banks are showing rising trends in these sectors. Findings supported by (Koley,2025; Kanaujiya, 2024). Moreover, lending to micro enterprises by private sector banks has a relatively higher share than lending by the private sector as a whole.

Table 5: Pairwise Correlation Analysis

Variable Pair	Public Sector	Private Sector
NPA vs PSL	-0.76	-0.82
NPA vs Agriculture	-0.74	-0.65
NPA vs Small & marginal Farmers	-0.93	-0.89
NPA vs non-corporate Individual farmer	-0.86	-0.78
NPA vs Micro-enterprises	-0.88	-0.83
NPA vs Weaker sections	-0.95	-0.80

Table 5 illustrates the relationship between NPA and priority-sector lending by public and private-

sector banks in India. A strong negative correlation was observed between NPA and the composition of priority-sector lending. A notably strong adverse relationship was identified concerning small and marginal farmers and the weaker section of public sector banks. Consequently, it suggests that public sector banks should concentrate on lending to these sectors. Overall, this suggests that an adverse relationship could indicate a substantial negative impact of NPA on the inclusive lending activities of both public- and private-sector banks.

CONCLUSION:

The NPA trend in both the public and private sectors was declining. Public sector banks have a higher level of NPAs than private sector banks. Public sector banks still face the issue of bad loans even after the IBC resolution mechanism. Private sector gross NPAs increased in absolute terms, but the gross NPA ratio decreased, indicating faster growth in advances and better risk management. Both groups of banks met the priority sector lending target. It was observed that public sector banks remain the main providers of priority sector lending, although their lending is more risk-sensitive. A strong negative correlation was found between NPA and PSL sub-sectors, especially for small and marginal farmers and the weaker sections of the public sector banks. Emphasising higher credit flow could help to lower the NPA burden. Public sector banks play a vital role in India's financial inclusion. Hence, for sustainable, inclusive lending, public sector banks should adopt better recovery practices, while private sector banks must boost inclusive lending.

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