



ROLE OF NON-PERFORMING ASSETS IN AGRO-SUBSIDIES

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Abstract

Indian economy is predominantly an agrarian economy and its prosperity depends upon the progress of agriculture. So agriculture sector is considered as the backbone of our national economy. Various incentives have been provided for accelerating the growth of agricultural production. This paper makes an attempt to study the effect of different variables on the non performing farmers, as the main objective of our study is to know what are the difficulties faced by our Indian farmers in paying back the borrowed amount with regular payment of interest.

Keywords– Agricultural Credit Analysis, Cash Credit (CC), Non Performing Assets (NPAs), Economy.

INTRODUCTION

Non-performing assets (NPAs) are a key concern for banks in India. They are the best indicator of the health of the banking industry. Public sector banks have displayed excellent performance and have beaten the performance of private sector banks in financial operations. However, the only problem of these banks is the increasing level of nonperforming assets, year by year. On the contrary, the NPAs of private sector banks have shown a decline. A reduction in NPAs shows that banks have strengthened their credit appraisal processes over the years. The increase in NPAs shows the necessity of provisions, which bring down the overall profitability of banks. Therefore to improve the efficiency and profitability of banks, NPAs need to be reduced and controlled. A high degree of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. Under the circumstances, the role of credit rating agencies also needs to be relooked at and brainstormed over. In emerging economies, banks are more than mere agents of financial intermediation and carry the additional responsibility of achieving the government's social agenda also. Because of this close relationship between banking and economic development, the growth of the overall economy is intrinsically correlated to the health of the banking industry.

Issue of mounting agricultural subsidies is a contentious one. It impacts not only the agricultural sector but is also important in the context of fiscal consolidation. Explicit and implicit subsidies for this sector remain large and ill-targeted. The food and fertilizer subsidies are explicit subsidies. In addition, there are three main types of implicit subsidies in the form of subsidies to power, water through public irrigation projects and credit under priority sector lending norms. The excessive and unbalanced use of subsidized inputs can have adverse impact on the performance of agriculture. Appropriate pricing and user charges of such inputs would release resources for improved public investment in new infrastructure projects and for the maintenance of the existing facilities. It is, therefore, important to reduce most of the agricultural subsidies and ensure better targeting of those that are essential for social welfare. However, the subsidy issue is made more complex in the light of falling international agricultural prices. If these prices return to the mid-1990s levels, the need for subsidies will be correspondingly lower.

A contributing factor to below-potential performance of agriculture is the failure to sufficiently diversify the cropping pattern. The minimum support price (MSP) policy has distorted the relative prices between rice and wheat, on the one hand, and other food and non-food crops, on the other, giving rise to a distorted cropping pattern. It has contributed to a steep rise in the ratio of procurement to production over the years. The higher increase in MSPs of rice and wheat relative to prices of other agricultural commodities has contributed to an incentive structure that favors production of rice and wheat at the cost of other crops. The policy has contributed to a burgeoning stock - far in excess of food security requirements, adding to carrying costs and locked-in bank credit, which could have been otherwise deployed for funding productive activities. In view of the associated costs, there is a need for re-examining the price support mechanism to eliminate the distortion of agricultural product composition. In line with diversification of the consumption basket of a representative Indian household, there has been some acceleration in the growth of high value-added agricultural products such as milk, fruits and vegetables, poultry, meat and fisheries during the 1990s. It is essential that this trend be reinforced in the coming years from the viewpoint of enhancing producer incomes and nutrition of consumers. Higher agricultural growth will come from crop diversification to non-traditional activities that are in line with the changing agricultural demand pattern.



Though withdrawal of restrictions on the movement of commodities has been a major component of the reforms in agriculture, some legislative and regulatory constraints have prevented the agricultural sector from exploiting its true potential. Reforms have, however, been substantial in the case of selective credit controls, with only sugar currently being subjected to such controls. Limited de-reservation of items produced in the small-scale sector related to agriculture has been initiated. Some progress has been achieved in setting up of the commodity exchanges for trading in futures and options in agricultural commodities. Further efforts are necessary that would remove distortions (price and non-price interventions) in the output and input markets and facilitate, inter alia, price discovery and risk management.

Several measures have been initiated in the 1990s to augment the flow of institutional credit to the rural sector and enhance the efficacy of the credit distribution channel. The growth of direct institutional credit flow towards agriculture and allied activities, however, declined during the 1990s as compared with the 1980s. Coupled with a shift in the composition of credit away from medium/long-term loans, this could have affected capital formation in the private sector. These developments indicate that banks may have targeted relatively risk-free irrigated areas and individuals with high net worth for providing priority sector agricultural loans. In comparison, rain-fed and drought prone areas and relatively poorer households have had greater dependence on informal sources of finance. The deadweight of non-performing assets (NPAs) of agricultural advances has also affected the recycling of credit. The adherence to prudential norms of income recognition, asset classification and provisioning has made banks more conscious of risk. This could have also contributed, at the margin, to deceleration in flow of credit to agriculture.

CONCLUSION

In the last couple of years, as Indian economy witnessed downturn trends, the banks have been straddled with high NPAs and restructured assets. Macro-economic dynamics may be a major contributor, however we also believe that inadequate credit assessments and monitoring during the upturn in the economy has also contributed to the same. All participants in the ecosystem, the banks, regulators, borrowers and CRAs need to take responsibility that the bankers can avoid sanctioning loans to the non creditworthy borrowers by adopting certain measures. They are careful appraisal of the project which involves checking the economic viability of the project. A banker must consider the return on investment on a proposed project. If the calculated return is sufficiently higher than the credit amount he can sanction the loan should constantly monitor the borrower in order to ensure that the amount sanctioned is utilized properly for the purpose to which it has been sanctioned. This involves the post sanction inspection by the banker. Banker should get both the formal and informal reports about the goodwill of the customer.

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