GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

**RAJYA SABHA**
**UNSTARRED QUESTION NO-1812**

ANSWERED ON TUESDAY, DECEMBER 16, 2025/25 AGRAHAYANA, 1947 (SAKA)

## NPAs IN MSME SEGMENT

1812. DR. ASHOK KUMAR MITTAL:

Will the Minister of FINANCE be pleased to state:-

(a) whether Government recognises the recent rise of NPAs in MSME, personal-loan and unsecured-credit segments despite public claims of stability, the details thereof;

(b) whether repeated recapitalisation of PSBs has occurred without adequate governance reforms, resulting in continuing frauds and poor credit appraisal, the details thereof;

(c) whether off-budget borrowings and opaque fiscal practices have increased long-term macroeconomic risks, the details thereof; and

(d) whether the Ministry intends to strengthen supervisory frameworks, ensure transparent accounting, and introduce structural reforms to safeguard India's financial architecture, the details thereof?

## ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PANKAJ CHAUDHARY)

(a): Gross NPA ratio of scheduled commercial banks (SCBs) in MSME and retail loans, including personal loans and unsecured retail loans, has been declining over the last five financial years and in the first half of the current financial year, and is provided in the table below:

| **As on** | **Gross NPA Ratio (in %)** | |
|---|---|---|
| | **MSME Loans** | **Retail Loans (including Personal Loans and Unsecured Retail Loans)** |
| **31.3.2021** | 9.87 | 2.22 |
| **31.3.2022** | 7.57 | 1.84 |
| **31.3.2023** | 5.47 | 1.45 |
| **31.3.2024** | 4.44 | 1.20 |
| **31.3.2025** | 3.60 | 1.18 |
| **30.9.2025*** | 3.27 | 1.13 |

*Source: RBI, (*provisional data for FY 2025-26 as on 30.9.2025)*

However, gross NPA ratio in personal loans of SCBs rose from 0.92% in March 2023 to 1.28% in September 2025, while the ratio for unsecured retail loans increased from 1.60% to 1.84% over the same period. Despite these increases, both remain well below the overall gross NPA ratio of SCBs of 2.05% as of September 2025. (RBI provisional data as on 30.9.2025)

(b): There has been no capital infusion in public sector banks (PSBs) by the government since FY 2022-23. Government has consistently emphasised that recapitalisation is a transitory measure aimed at restoring PSBs to financial health and ensuring that they are adequately capitalised to comply with regulatory requirements mandated by the Reserve Bank of India. The Government has ensured that recapitalisation of PSBs is accompanied by reforms, which include, *inter alia*, mergers and consolidation of PSBs, monetisation of non-core assets, comprehensive reforms under the EASE (Enhanced Access & Service Excellence) agenda, other governance/structural initiatives aimed at improving operational efficiency, improved risk management practices, and enhanced credit discipline in PSBs. Enabled by these, over the last few years, PSBs have significantly improved their financial performance, turned profitable with strengthened capital position. PSBs now increasingly rely on market sources and internal accruals to meet their capital requirements.

As per RBI data, slippage ratio, *i.e.* new accretion to NPAs during the financial year as percentage of standard advances at the beginning of the financial year in PSBs has been continuously declining since FY 2017-18 and it has declined from 8.35% in March 2018 to 0.81% in September 2025 (provisional data). Improved credit appraisal is one of the factors responsible for continuous decline in slippage ratio. Also, as per RBI data on frauds based on the date of occurrence, amount involved in frauds in PSBs has declined from Rs. 29,151 crore in FY 2017-18 to Rs. 705 crore in the FY 2024-25 and further to Rs. 35 crore in the first half of the current financial year. *(RBI provisional data for FY 2025-26 till 30.9.2025)*

(c): The central government has discontinued the off-budget borrowings since the financial year 2022-23.

(d): Government, over the last few years, has taken various reform measures to address the issues related to credit discipline, responsible lending and improved governance, adoption of technology, strengthening of supervisory framework, transparent accounting and other structural reforms to safeguard India's financial architecture. These include, *inter alia*, the following:

(i) Credit discipline has been instilled through enactment of 'Insolvency and bankruptcy Code' (IBC); setting up of the Central Repository of Information on Large Credits (CRILC) to monitor corporate loans and systematic checking of high-value accounts for wilful default and fraud.

(ii) Recognition and resolution of stressed Assets - To protect financial institutions in case of default/ delay in payment by large borrowers, multiple steps have been taken *viz.*, putting in place a framework for early recognition and time-bound resolution of stress; automated Early Warning Systems to detect and reduce slippage of accounts into NPAs using third-party data and workflow for time-bound remedial actions; strengthening market-based mechanisms to better manage the credit risk on the balance sheets through a comprehensive framework for transfer of stressed assets to eligible transferees. National Asset Reconstruction Company Limited (NARCL) has been set up to consolidate and takeover stressed debt, fragmented across various lenders and thereafter manage and dispose it off to buyers for better realisation.

(iii) Governance Reforms in Public Sector Banks (PSBs) has been carried out through reforms like arms-length selection of top management through FSIB, introduction of Non-Executive chairmen in Nationalised banks, widening talent pool and instituting performance-based extension for MDs.

(iv) Enhanced Access & Service Excellence (EASE) reforms have enabled objective and benchmarked progress on all key areas in PSBs — *viz.*, governance, prudential lending, risk management, technology and data-driven banking, and outcome-centric HR.

(v) Amalgamation of PSBs has led to economies of scale, increase financial capacity, technology adoption and overall efficiency enhancement.

(vi) Massive Technology adoption in banking has been instrumental in expanding financial inclusion, improving efficiency, and enabling real-time service delivery. Digital payment transactions have grown phenomenally as a result of various initiatives *viz.,* Jan-Dhan–Aadhaar–Mobile (JAM) linkage, interoperable Bank Mitras, UPI and DBTs.

(vii) The Banking Regulation (Amendment) Act, 2020 has been brought in to enhance the governance, financial stability, and regulatory oversight of co-operative banks, which serve millions of citizens, particularly in rural and semi-urban areas.

(viii) The Banking Laws (Amendment) Act, 2025 has been notified to enhance governance standards, strengthen protection for depositors and investors, improve audit quality in PSBs, shift statutory reporting by banks to the RBI and streamline nomination processes for customer convenience.

(ix) To align with International Financial Reporting Standards for improving transparency, consistency, and comparability in financial reporting, Indian accounting standard (IndAS) has been implemented in phases by the government.

(x) For enforcement of auditing standards and ensuring the quality of audits and corporate financial reporting, government has established the National Financial Reporting Authority as an independent regulator.

(xi) RBI, recognising the substantial expansion, increasing complexity, technological innovation, and heightened interconnectedness of the NBFCs within the financial sector, instituted the Scale Based Regulatory (SBR) Framework for NBFCs to ensure a proportionate, risk-aligned regulatory regime commensurate with the evolving risk profiles of these entities.

(xii) RBI, in October 2025, has issued draft Directions proposing the replacement of the incurred-loss-based provisioning framework with an Expected Credit Loss (ECL)–based approach to strengthen credit risk management, enhance comparability across financial institutions, and align domestic regulatory norms with internationally accepted regulatory and accounting standards.

(xiii) Also, in furtherance of its broader objective of promoting ease of doing business, RBI has undertaken a comprehensive consolidation of all extant regulatory instructions applicable to each category of regulated entity (RE) into cohesive, self-contained Master Directions, thereby fostering enhanced regulatory clarity, streamlined accessibility, and reduced compliance burden for REs.

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