



## Rising NPAs in Bihar's Farming Sector: Threatening the Future

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### Abstract:

Bihar's farming sector is nearing a critical juncture as rising Non-Performing Assets (NPAs) threaten its sustainability. Between FY 2021–22 and FY 2022–23, agricultural loan amounts surged from ₹57,249 crore to ₹74,533 crore, while NPA ratios, despite improvement (from 28.5 % to 21.5 %), remain alarmingly high. This study identifies structural, climatic, financial, and institutional constraints—such as fragmented landholdings, monsoon dependency, weak credit access, volatile markets, rising input costs, climate stress, policy delays, and socio-economic exclusion—as key drivers of this crisis. Utilizing secondary data from SLBC, Bihar Economic Survey, and government databases, the analysis aims to (1) pinpoint the root causes of NPAs in agriculture, (2) evaluate their impacts on farmers' livelihoods, and (3) recommend actionable interventions to restore financial resilience and food security across rural Bihar.

**Keywords:** Agricultural, Bihar, Non-Performing Assets (NPAs), KCC, livelihoods.

### Introduction:

In recent years, Bihar has witnessed a significant rise in non-performing assets (NPAs) within its agricultural sector. An NPA is a loan or advance where the borrower has stopped making interest or principal repayments for a specified period, typically 90 days or more. In simple terms, it's a loan that is not generating income for the bank. According to the Reserve Bank of India (RBI), once a loan stops earning returns, it is classified as a Non-Performing Asset. This means a growing number of farmers are unable to repay their loans, putting pressure on the state's banking system and limiting access to fresh credit. The situation is particularly alarming as agriculture is a key livelihood source for the majority of Bihar's population. One of the primary reasons for the high NPAs is the weak income structure of farmers, caused by low productivity, unpredictable weather, and lack of access to stable markets. Most farmers operate on small landholdings and depend heavily on monsoon rains, making

them highly vulnerable to crop failure and income shocks. Without proper irrigation, storage, and marketing systems, they often sell their produce at low prices, leaving them unable to repay their loans. Another major issue is the decline in credit discipline, especially among larger borrowers who often default on bigger loans. This, combined with limited monitoring by banks and the expectation of loan waivers, has led to a growing culture of non-repayment. As a result, banks become hesitant to extend new loans, which in turn affects agricultural growth and rural development.

### Objectives:

1. To identify the factors contributing to NPAs in the agricultural sector.
2. To assess the impact of NPAs on farmers' livelihoods.

### Factors Responsible for High NPAs in Bihar's Agricultural Sector:

1. **Fragmented and Small Landholdings:** Small and Fragmented

Landholdings: In Bihar, the average farm size is only about 0.39 hectares, with over 90% of farmers classified as marginal (holding less than 1 hectare). This level of fragmentation means most plots are tiny and scattered—many farmers own multiple pieces of land spread across different locations. Such small, dispersed plots are unsuitable for mechanized agriculture. Farmers cannot efficiently utilize tractors or modern equipment on fragmented land, which restricts productivity and drives up per-hectare costs. Low productivity and high production costs mean marginal farmers struggle to generate enough surplus to meet loan EMIs. The lack of economies of scale makes them particularly vulnerable to income shocks, such as crop failure or input-price hikes.

2. **Unreliable Monsoon and Poor Irrigation Coverage:** Bihar's agriculture is still largely dependent on seasonal rainfall. Inconsistent monsoons, frequent droughts, and flooding disrupt crop production. A lack of modern irrigation systems further worsens the situation, pushing many farmers into crop failure and debt accumulation.
3. **Weak Access to Institutional Credit:** Despite various government schemes, many farmers still depend on informal sources like local moneylenders due to complex procedures, lack of awareness, or absence of proper documentation. When loans from banks are disbursed, repayment suffers due to poor income, pushing the loans into NPA status.
4. **Unorganized and Exploitative Agricultural Markets:** Farmers in Bihar often sell their produce in unregulated local markets or to middlemen, where they receive prices well below the Minimum Support Price (MSP). The dismantling of the APMC

structure in Bihar has not been replaced with robust market mechanisms, thereby weakening price assurance and income stability.

5. **High Input Costs with Poor Returns:** The cost of seeds, fertilizers, pesticides, and diesel has increased steadily. On the other hand, the price of produce has not kept pace, creating a mismatch between cost and revenue. This reduces farmers' profitability and weakens their ability to repay credit.
6. **Climate Change and Land Degradation:** Over the years, erratic climate events like unseasonal rains and rising temperatures have directly affected crop yields. Additionally, overuse of chemical fertilizers without soil health checks has degraded soil fertility, reducing long-term agricultural output and thus, income.
7. **Policy Delays and Implementation Gaps:** While many schemes exist to support farmers—such as loan waivers, PM-KISAN, and crop insurance—their implementation on the ground is often slow, partial, or bureaucratic. These delays fail to cushion farmers during distress, pushing many deeper into financial crisis.
8. **Socio-Economic Vulnerabilities:** A large portion of Bihar's rural population is either landless or cultivates leased land. Many of these farmers, especially sharecroppers, are ineligible for formal loans due to a lack of land records. This exclusion increases their dependence on informal credit and limits their ability to recover from financial shocks.

**Table No. 1.1: NPAs of Banks in Bihar (2021-22 and 2022-23)**

Banks	2021-22				2022-23		
	Total Advances (Rs. crore)	Total NPA (Rs. crore)	NPA (Percentage)	Written off (Rs. crore)	Total Advances (Rs. crore)	Total NPA (Rs. crore)	NPA (Percentage)
Commercial Banks	172876	15207	8.8	513	204999	15364	7.5
Co-Operative Banks	11691	332	2.8	0	11908	324	2.7
RRBs	21127	8018	38	0	23396	7124	30.4
Small Finance Banks	5450	313	5.8	0	7052	132	1.9
Total	211144	23870	11.3	513	247355	22944	9.3

**Source:** Bihar Economic Survey 2024–25

The Bihar Economic Survey 2024–25 reveals that total bank lending in Bihar increased significantly, from ₹2.11 lakh crore in FY 2021–22 to ₹2.47 lakh crore in FY 2022–23. Despite the higher lending, NPAs fell both in absolute terms (from ₹23,870 crore to ₹22,944 crore) and as a share of advances (from 11.3% to 9.3%), signalling improved asset quality.

Notably, commercial banks grew their loan book by about 18%, reducing the

NPA ratio from 8.8% to 7.5%. Regional Rural Banks, though struggling with high NPAs, showed marked improvement, dropping from 38% to 30.4%. Meanwhile, co-operative banks and small finance banks saw stable or better NPA ratios, with the latter reducing from 5.8% to 1.9%. Together, these trends point to stronger credit growth and better loan recovery across Bihar's banking sector.

**Table No. 1.2: NPAs of Banks in Bihar (2021-22 and 2022-23)**

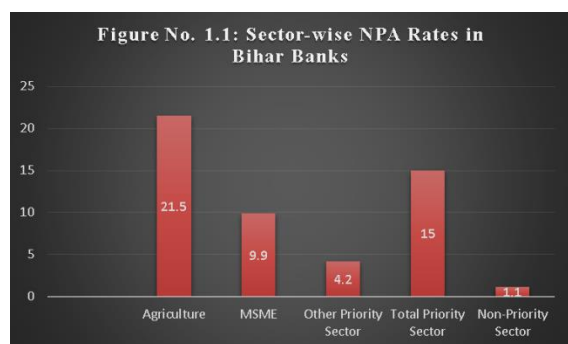
Sector	2021-22			2022-23		
	Total Outstanding Advances (Rs. crore)	Total NPA (Rs. crore)	Percentage of NPA	Total Outstanding Advances (Rs. crore)	Total NPA (Rs. crore)	Percentage of NPA
Agriculture	57248.8	16331.6	28.5	74533.4	16026.2	21.5
MSME	40191.9	5220.7	13	49385	4872.2	9.9
Other Priority Sector	20964.1	965.7	4.6	22066.5	934.2	4.2
Total Priority Sector	118404.8	22517.9	19	145984.8	21832.5	15
Non-Priority Sector	92739	1351.8	1.5	101369.9	1111.8	1.1
Total	211143.8	23869.7	11.3	247354.7	22944.4	9.3

**Source:** State Level Bankers' Committee Report & Bihar Economic Survey 2024–25

Table No. 1.2, titled NPAs of Banks in Bihar (2021-22 and 2022-23) the Non-Performing Assets (NPAs) of banks in Bihar for the financial years 2021–22 and 2022–23, as reported by the State Level Bankers' Committee (SLBC), reveal notable

trends across various sectors. Agriculture Sector: Despite an increase in outstanding advances from ₹57,248.8 crore in 2021–22 to ₹74,533.4 crore in 2022–23, the NPA percentage decreased from 28.5% to 21.5%. This indicates an improvement in loan

repayments within the sector. MSME Sector: The NPA percentage reduced from 13.0% in 2021–22 to 9.9% in 2022–23, even as advances grew from ₹40,191.9 crore to ₹49,385.0 crore. This suggests better credit management and possibly the impact of supportive policies. Other Priority Sector: A slight decline in NPA percentage from 4.6% to 4.2% was observed, with advances increasing modestly. Non-Priority Sector: Maintained a low NPA percentage, decreasing from 1.5% to 1.1%, indicating strong asset quality in this segment. Overall: Total advances increased by approximately 17%, while total NPAs decreased by about 3.9%, leading to an overall NPA percentage reduction from 11.3% to 9.3%.



**Source:** Bihar Economic Survey 2024–25

Figure No. 1.1: titled Sector-wise NPA Rates in Bihar Banks presents Non-Performing Asset trends by Sector in Bihar (2021–23). Agriculture NPA dropped significantly from 21.5% (Mar 2023) to 18.1% (Mar 2024), showing improved loan performance in the farm sector. MSME and Other Priority sectors also saw substantial reductions in NPA-MSME from 9.9% to 7.8%; Other Priority from 4.2% to 3.2%. Total Priority Sector NPA fell from 15% to 12.2%, signalling progress in priority lending. Non-Priority NPAs remained low (~1.1–1.2%), indicating stable asset quality in that segment. Overall NPA rate across all sectors declined from 9.3% to 7.5%, reflecting banking health improvements.

### Need of the Study:

Bihar's agricultural sector forms the backbone of its rural economy, engaging over 50% of the workforce and contributing around 20% to the state's Gross State Value Added. The problem is particularly acute in Bihar, where many KCC accounts are inactive or in default, amplifying the risk exposure for banks and the overall rural credit architecture. This crisis is rooted in a complex mix of structural and environmental vulnerabilities. Farms in Bihar average just 0.39 hectares, severely limiting productivity and mechanisation, which deters formal bank lending. Without a detailed examination of these intertwined factors—ranging from farm size and weather risk to institutional weaknesses and market inefficiencies—policy responses will remain ineffective. Consequently, this research is essential to identify the root causes of NPA growth and propose targeted strategies that reinforce credit resilience, support farmers' livelihoods, and safeguard Bihar's agrarian future.

### Literature Review:

MSME credit growth in Bihar has been positive, yet the state faces high NPA levels, indicating financial distress. Compared to Odisha and the Southern region, Bihar's credit expansion remains modest, highlighting regional disparities (Ankur Raj, Priyanka Bharti, Dr. Gagan Kumar- March 2025). The study by Chakraborty (2020) reveals that insufficient credit management contributes to the growth of NPAs in economically lagging regions, suggesting that enhanced risk assessment and inclusive financial policies are essential.

### Methodology:

This study utilizes a descriptive approach based entirely on secondary data, analysing figures sourced from official publications such as the Bihar Economic Survey, SLBC banking reports, and RBI



databases. Quantitative tools, including NPA ratios, percentage calculations, and trend tables, were employed to measure and compare sectoral performance over time. This allows for a clear, statistical understanding of rising NPAs in Bihar's farming sector. Tabulation facilitates structured presentation, while comparative histograms visually highlight fluctuations across fiscal years.

#### Limitations:

This study is based on secondary sources, which means the data is subject to the accuracy and completeness of published records. The methodology does not include primary interviews or surveys, which could limit depth in understanding farmer experiences. Analysis is limited to sector- and state-level data, without micro-level granularity at the borrower or district levels.

#### Conclusion and Suggestions:

Bihar's agricultural sector is at a watershed moment, defined by a complex mix of progress and persistent structural flaws. Between FY 2021–22 and FY 2022–23, agricultural lending rose sharply from ₹57,249 crore to ₹74,533 crore, while NPAs in the sector fell from 28.5% to 21.5%—a significant improvement, yet still alarmingly high. This decline in NPAs further tracking downward to 18.1% by March 2024, reflects modest gains in loan recovery and credit discipline. However, underlying challenges—fragmented landholdings, climate vulnerability, unreliable irrigation, fragmented markets, rising input costs, institutional inertia, and exclusion of small and landless cultivators—remain deeply entrenched. These structural constraints impede farmers' ability to build sufficient income resilience and continue servicing loans. Despite progress, NPAs remain unsustainably high, discouraging banks from lending and restricting access to timely credit. Without reform, Bihar risks entering

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a cycle of credit contraction and agrarian distress.

Initiate soil testing programs and promote integrated nutrient and pest management to boost yields and reduce input costs. Raise awareness and participation in government schemes among marginalized and female farmers, addressing gaps in extension outreach. Simplify KCC processes and expand PACS coverage to reduce dependence on informal lenders. Introduce digital credit verification to enable timely disbursement and repayment tracking.

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