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CREDIT GROWTH AND ASSET DELINQUENCY IN INDIAN BANKS

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ABSTRACT

The present article examines the factors that affect the credit risk in Indian banks by analyzing the bank specific and macroeconomic determinants that influence a bank's asset delinquency rate. The bank specific factors analyzed in the study include Size of the bank, excessive past credit growth, priority sector lending, asset restructuring, bank profitability and the effect of previous year's delinquent assets of a bank. Whereas the rate of growth of Gross Domestic Product (GDP) constitutes the macroeconomic determinant. In order to analyze the effect of these factors on a bank's asset delinquency rate, the study deploys a panel data analysis on 43 Indian banks comprising of 20 Nationalized banks, 17 Private bank and 6 State Bank of India (SBI) group banks observed over a period of 10 years from Financial Year (FY) 2006 to 2015. The results of the empirical analysis show that within the bank-specific determinants, bank size, and priority sector lending and rate of assets restructuring negatively influence the asset delinquency rate of Indian banks. Whereas past credit growth, profitability and preceding level of delinquent assets had a positive effect. Further, the macroeconomic determinant i.e. the growth rate of GDP is observed to have a positive relationship with a bank's asset delinquency rate.

KEYWORDS: *Credit Risk, Indian Banks, Non-Performing Assets, Npl, Panel Data Analysis.*

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