

A Study on the Impact of Macroeconomic Determinants on the Non-performing Assets of old Private Sector Banks in India

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Abstract

This pragmatic study explores the impact of macroeconomic determinants on the Non-Performing Assets (NPAs) of Old Private Sector Banks (OPSBs) for the study period from 2005-2006 to 2014-2015. The study focuses on determining the association between the macroeconomic variables and the NPAs of Old Private Sector Banks using the correlation and econometrics tools namely Augmented Dickey Fuller Unit Root Test, Johansen Co-integration Test and Granger Causality Test. The study has been sequenced as listed below: Section two investigates the available literature. Section three explains the research design and methodology followed by Section four which explains the results and Section five brings an end to the study. It has been found that Gross Domestic Product (GDPGR), Private Sector Lending Rate (PVSLR), Inflation Rate (IR) and Repo Rate (RR) are the macroeconomic pointers of Non-Performing Assets (LGGNPA) of Old Private Sector Banks in India.

I. Introduction

NON-PERFORMING ASSETS (NPAs) is one of the emerging problem in the banking industry throughout the world. The banks are facing serious difficulty in getting their money back in order to meet out their business operations. Huge amount of money remains as NPAs in banks due to the default customers who are normally in large numbers. Because of the NPAs, the banks tend to borrow huge money for their working capital requirement which in turn will increase the cost of operations and further affects the interest rate of the banks. Though the Public Sector Banks contribute the maximum part to the NPAs, the Private Sector Banks also hold a key position in the Indian Banking Industry.

With this brief note, the study has been sequenced as listed below: Section two investigates the available literature. Section three explains the research

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VI. Conclusion

This study examines the effect of macroeconomic variables on the NPA movement of OPSB for a time frame of 10 years from 2005-2006 to 2014-2015. The Granger Causality Test clearly explains that there is bidirectional relationship among UR and LGGNPA whereas there is unidirectional relationship among GDPGR, PVSLR, IR and RR with LGGNPA. So, it can be finally concluded that Gross Domestic Product (GDPGR), Private Sector Lending Rate (PVSLR), Inflation Rate (IR) and Repo Rate (RR) are the macroeconomic pointers of Non-Performing Assets (LGGNPA) of Old Private Sector Banks in India.

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