

ABSTRACT

The macroeconomic environment is viewed as a critical driver for credit risk. In this regard, the focus of the study is to analyse the credit risk and macroeconomic conditions relationship in the banking sector of India both at the aggregate level and bank-specific level. Using annual series that span from 2001-2015, this paper covers both the booming period and the financial crisis period. The analysis is done by evaluating credit risk as a function of non-performing assets and as a function of sub-standard and doubtful loans and the effect of macroeconomic variables on credit risk ratio at the bank-specific level is analysed using ordinary least squares method and by using random effects model at the aggregate level and tested at 5% significance level. The lag effects of the macroeconomic variables are being looked into and the empirical results show that the effect of macroeconomic conditions on credit risk of public banks is more significant than the effect on private and foreign banks. The findings of the paper conclude that Time trend is the most significant factor influencing credit risk amongst the variables used in our analysis. The results have several implications for policymakers, regulators and managers in analyzing the credit risk management methods.