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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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GROWTH AND CREDIT - AN INDIAN CONTEXT

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ABSTRACT

Credit Risk Management in Scheduled Commercial Banks have greater impact on its profitability and sustainability, much research work happened in this area but many researchers ignored the impact of macroeconomic factors such as Gross Domestic Product growth in credit Risk Management. This paper is mainly aimed to establish the correlation among Gross Domestic Product growth and Credit Risk factors such as Credit Growth and Write off amount growth. Based on the empirical correlation we ascertain the situation in Scheduled Commercial Banks in Credit Risk Management with help of experts in the area.

KEYWORDS

SCBs, GDP, write off, credit, correlation co-efficient.

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INTRODUCTION

In this Modern world everything scaled based the growth, banking have no exception to it. The word growth impacted every sphere of life of human from Agriculture and atomic sciences. Banks now became a key centre for developmental activities in India with its deep penetration and strong presence. Prime function of the banks in India is accepting deposits for the purpose of lending in developmental activities, at large interest of development of the society and Nation. Share of the SCBs in the industry in India is more than Ninety five percent. Credit growth is essentially important for the survival of banking industry. Growth of the Nation measured in terms of Gross Domestic Product growth in general. Major economic factors are having high impact on credit repayments and performance of industry as well.

Scheduled Banks in India refer to those banks, which have been included in the Second Schedule of Reserve Bank of India Act, 1934. RBI in turn includes only those banks in this Schedule which satisfy the criteria laid down vide section 42(6)(a) of the said Act. Banks not under this Schedule are called Non-Scheduled Banks. Every Scheduled bank enjoys two types of principal facilities: it becomes eligible for debts/loans at the bank rate from the RBI; and, it automatically acquires the membership of clearing house. Scheduled banks which works on commercial motive is known scheduled commercial banks (SCBs)

In banking, banks write off bad debt that is declared non collectable (such as a loan on a defunct business, or a credit card due that is in default), removing it from their balance sheets. A reduction in the value of an asset or earnings by the amount of an expense or loss

GROSS DOMESTIC PRODUCT

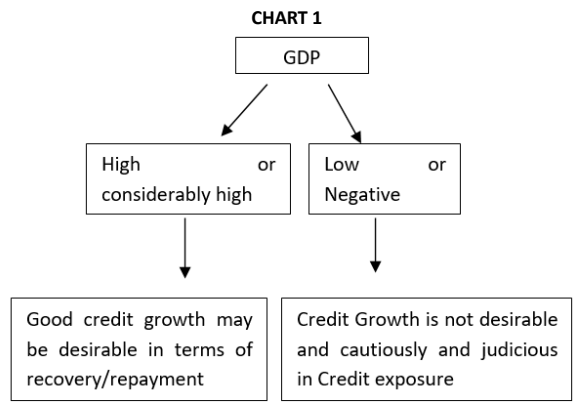
The Gross domestic Product (GDP) is the market value of all final goods and services produced within a country in a given period of time. The GDP is the officially recognized totals. The following equation is used to calculate the GDP:

$GDP=C+I+G+(X-M)$ OR

$GDP = \text{private consumption} + \text{gross investment} + \text{government investment} + \text{government spending} + (\text{exports} - \text{imports}).$

For the gross domestic product, “gross” means that the GDP measures production regardless of the various uses to which the product can be put. Production can be used for immediate consumption, for investment into fixed assets or inventories, or for replacing fixed assets that have depreciated. “Domestic” means that the measurement of GDP contains only products from within its borders.

GDP growth rate is greater stimulator for business activity and performance in development of a Nation which is essentially important for the credit growth and recovery of bank credits and advances as well. Before granting the loans banks are supposed to see growth prospective of concerned if it is bright, greater credit growth advised otherwise credit growth might be curtailed to safe guard shareholders wealth.



GDP growth is the best measure among measure of major economic factors to indicate performance of industry and also a nation. This paper mainly focused to correlate the mentioned factor with performance of Indian SCBs in terms of credit growth percentage and Write off amount Growth percentage.

REVIEW OF LITERATURE

Much research happened in credit risk management and credit risk analysis with much focus on several criterions. Credit risk in commercial banks represents the most important type of risk. Banks bear the credit risk attached to bank loans and forward contracts. The risk of defaults or protracted arrears on outstanding loan is termed as credit risk (Tamimi, H. and Mazrooei, F., 2007). According to the consultative paper issued by the Basel Committee on Banking Supervision (1999), for most banks loans are the largest and most obvious sources of credit risk. Credit Risk is the potential that a bank borrower or counter party fails to meet the obligations on agreed terms. It mainly arises from the potential that a borrower or counterparty will fail to perform on an obligation. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner.

Oldfield and Santomero (1997) investigated risk management in financial institutions. In this study, they suggested four steps for active risk management techniques: 1. The establishment of standards and reports; 2. The imposition of position limits and rules (i.e. contemporary exposures, credit limits and position concentration); 3. The creation of self-investment guidelines and strategies; and 4. The alignment of incentive contracts and compensation (performance-based compensation contracts).

Swaranjeet Arora (2013) in his study discussed several factors, which have impact on Credit and Credit Risk such as Credit Worthiness analysis and Collateral requirements, the two important factors for analyzing Credit Risk. Outcomes of his study are primarily "Credit risk Analysis is crucial because no single database typically houses all of the risk related data and several years of information is required" and Secondly "Credit Risk Analysis is better in Old Private sector banks and New Private Sector banks, as compared to State Bank of India and its associates and other public sector banks".

Diana Cibulskiene and Reda Rumbauskaitė are evaluated the credit risk management in commercial banks in Lithuania they concluded that "No solid policy for credit risk management exists. Absence of a solid credit risk management model exacerbates supervision of credit risk management of the Lithuanian banking sector and allows choose indicators for banks themselves."

NEED OF THE STUDY

Risk Management is professional and skilled multi-dimensional activity based on several factors either internal or external factors. This study is to find impact of macroeconomic factors on Credit and its related Risk. The outcome of this paper is extremely useful for policy makers, Stakeholder and Academicians'.

Majority of the researchers were ignored and not considered impact macro-economic factors on credit management and credit risk. This paper is essentially aimed to fill the vacuum aroused in the mentioned area. This study is a blended two wise subjects namely commerce and economics in cohesive manner to augment the capability of credit risk management and analysis for professionals and academicians'.

RESEARCH METHODOLOGY

This study has two main aspects, firstly a simple correlation between GDP growth and Credit expansion of PSBs, secondly studying relation between GDP growth and Written Off amount. The macro (Gross level) level investigations are based on secondary data which have been collected from world banks' annual reports, various statistical abstracts, and journals. GDP growth rate is collected from World Bank reports in its official website. Credit growth rate is collected from Reserve Bank of India official website. Mainly written off amount data is extracted from concerned Ministry reply to Parliamentary question during its session. The data used for analysis is highly authenticated and reliable.

STATISTICAL TOOLS AND TECHNIQUES

1. Line Chart using MS-Excel for visual comparison

2. Correlation coefficient to correlation co-efficient to understand the relative position among variables/factors.

In statistics, the correlation coefficient R measures the strength and direction of a linear relationship between two variables on a scatter plot. The value of R is always between +1 and -1. To interpret its value, see which of the following values your correlation R is closest to:

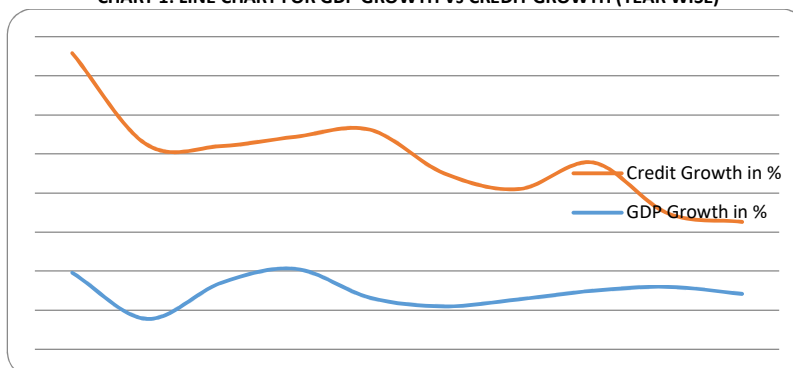
- **Exactly -1.** A perfect negative linear relationship
- **-0.70.** A strong downhill negative linear relationship
- **-0.50.** A moderate negative relationship
- **-0.30.** A weak downhill negative linear relationship
- **Exactly 0.** No linear relationship
- **+0.30.** A weak positive linear relationship
- **+0.50.** A moderate positive relationship
- **+0.70.** A strong positive linear relationship
- **Exactly +1.** A perfect positive linear relationship

DATA TABLE 1

Variable/Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP Growth in %	9.8	3.9	8.5	10.3	6.6	5.5	6.4	7.5	8.0	7.1
Credit Growth in %	28.1	22.3	17.5	16.9	21.5	17.0	14.1	16.4	9.4	9.2
Write off amount Growth in %	4.4	-12.7	-7.0	49.9	59.1	-12.6	75.1	26.4	52.7	13.3

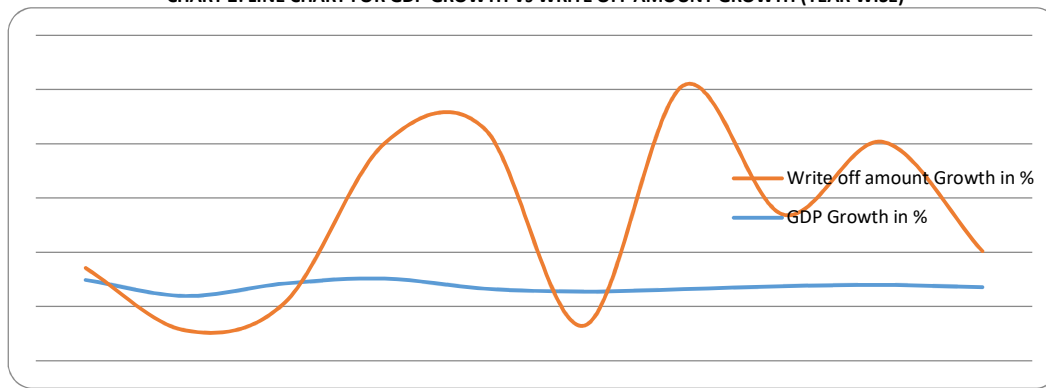
Growth percentage (%) calculated based on Figures of March 31st of concerned financial year.

CHART 1: LINE CHART FOR GDP GROWTH Vs CREDIT GROWTH (YEAR WISE)



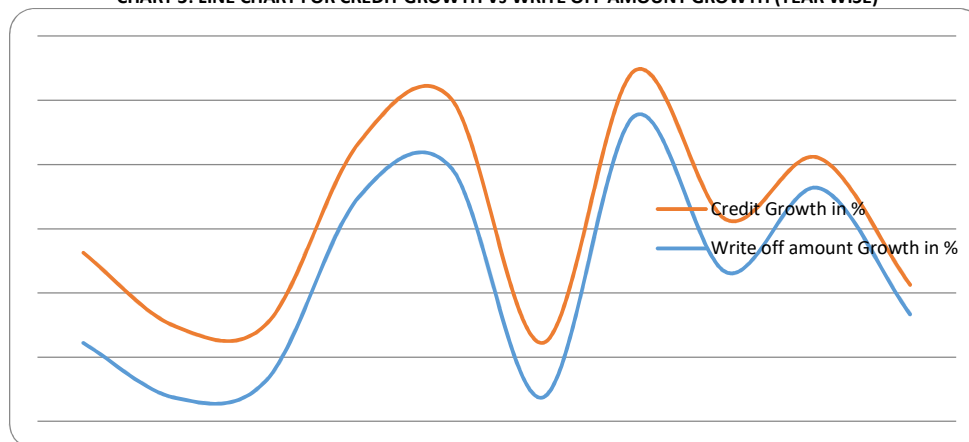
Pearson Correlation coefficient between GDP Growth Vs Credit Growth is 0.0548.

CHART 2: LINE CHART FOR GDP GROWTH Vs WRITE OFF AMOUNT GROWTH (YEAR WISE)



Pearson Correlation coefficient between GDP Growth Vs Write off amount Growth 0.238

CHART 3: LINE CHART FOR CREDIT GROWTH Vs WRITE OFF AMOUNT GROWTH (YEAR WISE)



Pearson Correlation coefficient between Credit Growth Vs Write off amount Growth is: -0.3319.

CONCLUSION AND SUGGESTION

1. After through consideration of experts' opinion in the industry, it is expected to have GDP growth should have high positive correlation in case of remaining factors such as regulatory environment, stable political atmosphere etc are in cohesive manner. In fact this papers revealed that GDP Growth have feeble/NO correlation with credit growth with Pearson correlation value 0.05. It is undesirable; it required correcting the banking system by the concerned regulator in consultation with statutory for safeguarding interests of Stakeholders and nation as well.
2. After through consideration of experts' opinion in the industry, it is expected to have GDP growth should have high negative correlation in ideal conditions with Write off amount growth. In other words Write off amount growth should be less in case of Higher GDP growth. Interestingly it showed positive considerably feeble correlation which is highly undesirable. It suggests that strong robust measures needed to augment recovery of bad loans with greater efficient banking recovery norms with help of statutory and regulatory bodies.
3. After through consideration of experts' opinion in the industry, it is expected to have Credit Growth and Write off amount also should have a negative correlation. The correlation between these two factors found -0.33. Banks' credit growth and Write off amount growth are exhibiting a weak negative correlation, a slightly desirable feature.

LIMITATIONS

1. This is brief and gross level study some minor causes and features may not considered and included.
2. There are several agencies involved in measuring GDP growth, in our paper considered World Bank growth rate.
3. The study not exhaustive as this study conducted only between the years 2007 to 2016(i.e Nine years).

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WEBSITE

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