



**भारतीय रिज़र्व बैंक**  
**RESERVE BANK OF INDIA**

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December 14, 2016

## **Bank Lending and Loan Quality: The Case of India**

The Reserve Bank of India today placed on its website a Working Paper titled '[Bank Lending and Loan Quality: The Case of India](#)' under the Reserve Bank of India Working Paper Series. The Paper is co-authored by Pallavi Chavan and Leonardo Gambacorta.

The study analyses how non-performing loans (NPLs) of Indian banks behave through the cycle. It finds that a one-percentage point increase in loan growth is associated with an increase in NPLs over total advances (NPL ratio) of 4.3 per cent in the long run with the response being higher during expansionary phases. Furthermore, NPL ratios of banks are found to be sensitive to the interest rate environment and the overall growth of the economy. Notwithstanding differences in management and governance structures, there is a procyclical risk-taking response to credit growth in the case of both public and private banks with private banks being more reactive to changes in interest rate and business cycle conditions.

*\* The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*

**Press Release : 2016-2017/1526**

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