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An Empirical Analysis on Effect of Credit Policy of RBI on Bankex Stocks

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Abstract – The capital market is a real some piece of Indian economy. In that capacity whatever the national and global occasions (common and man acts) happened that they had an effect straightforwardly on the Indian economy and in a roundabout way on the capital markets of individual nations. The most recent occasions like, Rbis credit policy rates on 26th July 2011 and S&p's evaluations on eighth August, 2011 on US government tenability are the real occasions which were influenced the Indian capital market antagonistically. In this crossroads, an endeavor is made to survey the banking sector's price patterns i.e. which bank stock prices got tremendously influenced and which are minimum influenced. This study will be convenient to know the significances of the occasions on stock prices and to settle on smart and sound speculation choices.

INTRODUCTION

The Indian economy and the Indian capital markets are uncovered as vibrant ones in the worldwide market after the usage of economic and financial sector changes in 1991. At that point onwards the Indian economic and GDP development rates have been expanding exponentially and turned into a perfect capital market for Fiis and Fdis. From the expansive exploration studies, relating the Indian economy and capital markets, it is watched and demonstrated that the Indian economy is quite pool sealed and has opposed to the extraordinary economic subsidence (i.e US economic stoppage after the bankruptcy of Lehman siblings and Merry Lynch Ltd) without much affect on any section of the economy. As RBI activities swelling will moderate to 6 percent by closure March 2012, it has raised its key rates for the twelve times since March 2010 whereby it has pushed up the repo and converse repo rates to 8.25% and 7.25% separately on sixteenth September 2011. The RBI is assuming an essential part in directing the money supply in the market keeping in mind the end goal to guarantee price stabilization. In attaining this, The RBI has been continually auditing and reconsidering the credit policy rates without exasperating the development rate. In this point, an endeavor is made to survey the banking sector's price patterns i.e. which bank stock prices got greatly influenced and which are slightest influenced. This study will be functional to know the meanings of the occasions on stock prices and to settle on smart and objective venture choices.

Occasion study strategy is dependent upon Efficient Market Hypothesis advanced by Fama et al. (1969) and Fama (1970). Consistent with this a market is proficient if , " prices completely reflect all accessible data ". One vital suspicion is that capital markets are

sufficiently productive to respond on occasions (new data) in regards to needed future benefits of influenced enterprises.

In the investigation of stock market's response to wearing outcomes of European recorded foot ball clubs, Benkraiem, Louhichi, and Marques(2009) indicates that brandishing comes about after both the anomalous and the exchanging volume around the dates of matches. They mulled over 745 matches played by European recorded football clubs. Their discoveries likewise demonstrate that market responses contrast as per the way of the outcome (annihilation, draw or win) and the match venue (home or away). From the discoveries, they infer that the accomplishment of speculations in recorded foot ball clubs obliges a consistent catch up of their wearing exhibitions.

Occasion studies make it conceivable to inspect the financial market effect of any occasion saw critical. Tan and Warner (1980, 1985) were critical in planning ordinary occasion study procedures in a reproduction study. Notwithstanding non synchronous exchanging regularly en tallied with every day information, they reason that both month to month and day by day information offer sufficient capability to distinguish unusual.

Samples of studies that have utilized different occasion study techniques to inspect irregular market examples incorporate Kim and Verrecchia (1991), Bamber and Cheon (1995), Graham, Nikkinen and Sahistorum (2003).

In the study, S.dinesh(2011) " A study on evaluating conduct in the Indian capital market with reference to power network organization of India constrained " ,

reasoned that, the security prices responded to the report of FPO.

In the above setting, the present study requirements, to evaluate the effect of Rbis credit policy affirmation and S& Ps evaluations on US government creditability on Bankex stock prices.

EFFECT ON PUBLIC SECTOR BANKS

The normal stock price for open sector banks prior and then afterward the affirmation of Rbis credit policy was Rs.845.3929 and 810.3929 with standard deviations 773.64693 and 740.70382. To test the effect of Rbis credit policy on open sector banks combined sample t-test connected as demonstrated in table 1 and tested under the accompanying theory.

H0: The stock prices of open sector banks does not varied altogether prior and then afterward the advertisement of Rbis credit policy.

H1: The stock prices of open sector banks varied altogether prior and then afterward the advertisement of Rbis credit policy.

	Paired differences				t	Sig.value
	Mean	S.D	95% confidence			
			Lower	Upper		
psbs prior - psbs post	35.00000*	35.24491	14.65019	55.34981	3.716	0.003

*mean difference significant at 0.05 level of significance

TABLE 1: PAIRED SAMPLES TEST FOR PUBLIC SECTOR BANKS

The mean contrast between general society sector banks stock prices earlier and post advertisement of Rbis credit policy is 35 with t-esteem 3.716 and p-esteem 0.003 accordingly the invalid theory is rejected at 0.05 level of criticalness .i.e. the mean distinction is noteworthy. It could be presumed that the stock prices of psbs diminished fundamentally after the declaration of Rbis credit policy

EFFECT ON PRIVATE SECTOR BANKS

The normal stock price for private sector banks earlier and post affirmation of Rbis credit policy was Rs.630.8607 and Rs.613.9179 with standard deviations Rs.384.78379 and 374.49511. The effect of Rbis credit policy on private sector banks tested under the accompanying speculation utilizing combined sample-t-test as showed in table 2

H0: The stock prices of private sector banks does not contrasted fundamentally previously, then after the fact the declaration of Rbis credit policy.

H1: The stock prices of private sector banks contrasted fundamentally previously, then after the fact the declaration of Rbis credit policy.

	Paired differences				t	Sig.value
	Mean	S.D	95% confidence			
			Lower	Upper		
prpbs prior - prpbs post	16.94286*	14.26827	8.70461	25.18111	4.443	0.001

*mean difference significant at 0.05 level of significance

TABLE 2: PAIRED SAMPLES TEST FOR PRIVATE SECTOR BANKS

The mean difference between the private sector banks stock prices before and after the announcement of RBIs credit policy is 16.94286 with t-value 4.443 and p-value 0.001 therefore null hypothesis is rejected at 0.05 level of significance .i.e. the mean difference is significant. It can be inferred that the stock prices of private sector banks decreased significantly after the announcement of RBIs credit policy.

EFFECT ON BANKEX STOCK PRICES

The mean stock price of bankex prior and post announcement of RBIs credit policy is 738.1268 and 712.1661 with standard deviations 609.4263 and 584.5416. The impact of RBIs credit policy on bankex stock prices tested under the following hypothesis and the results are given table 3.

Ho: There is no significant difference between bankex stock prices before and after the announcement of RBIs credit policy

H1: There is a significant difference between bankex stock prices before and after the announcement of RBIs credit policy

	Paired differences				t	Sig.value
	Mean	S.D	95% confidence			
			Lower	Upper		
bankex prior - bankex post	25.96071*	27.94399	15.12517	36.79626	4.916	0.000

*mean difference significant at 0.05 level of significance

TABLE 3: PAIRED SAMPLES TEST FOR BANKEX STOCK PRICES

The mean difference between bankex stock prices prior and post announcement of RBIs credit policy is 25.96071 with t-value 4.916 and p-value 0.000 therefore null hypothesis is rejected at 5% level of significance. We conclude that bankex stock prices decreased significantly after the announcement of RBIs credit policy.

S&P RATINGS

Standard & Poor's (generally regarded as S&p) is a business section of distributed house Mcgraw-Hill. It has been begun the operations in more than 20

nations. The organization gives the venture neighborhood autonomous credit appraisals on financial vehicles, for example, stocks, common trusts, corporate securities, and city securities. Notwithstanding its credit appraisals, hazard administration, speculation examination, information, and valuations, Standard & Poor's is known for its indexes, incorporating the S&p 500 index. The organization's roots arrive at again to 1860; S&p was gained by Mcgraw-Hill a little more than a century later. S&p has been eagerly including in financial industry and credit administrations. DBRS Limited • Fitch Ratings Inc. • Moody's Corporation (mco) are its top contenders.

The S&p has affirmed the credit appraisals for US Economy on fifth August, 2011. The appraisals of US Economy were minimized from AAA to AA+.

RESEARCH METHODOLOGY

The present study receives logical and engaging examination outline. A limited specimen of seven open and seven private sector banks of bankex stocks chose with the end goal of the study. The information of bankex stock prices for a period 25th July 2011 to 28th July 2011 (prior and then afterward two days of declaration of Rbis credit policy) and for a period fourth august 2011 to eighth august 2011 (before and two days later of advertisement of S&p evaluations on US economy), have been gathered from www.bse.com. While breaking down and deciphering the outcomes, the measurable instruments utilized are number juggling mean, standard deviation and matched example t test utilizing spss 19.

RESULTS & DISCUSSIONS

The Reserve Bank of India is the focal banking organization of India and controls the monetary policy of the rupee and also Us\$300.21 billion (2010) of money reserves. The organization was made on 1 April 1935 throughout the British Raj as per the procurements of the Reserve Bank of India Act, 1934 and has critical impact in the improvement strategy of the government. It is a part bank of the Asian Clearing Union.

RBI is a peak bank in the Indian banking industry. Its fundamental obligation is to verify that the methodical development and improvement of banking coupled with security to the all clients and open. Further the RBI need to guarantee the stable prices in the economy. For that reason it has been doing a vigorous activity to audit and control the money supply with a specific end goal to capture the running swelling in the nation by method of triggering the policy rates. The most recent policy rates of Rbi(as on 26 July,2011) were delineated in the accompanying table:

RBI Policy rates	Per cent age (%)
Bank Rat	6.0%
Repo Rate	8%
Reverse Repo Rate	7%
Cash Reserve Ratio (CRR)	6.0%
Statutory Liquidity Ratio (SLR)	24.0%
Base Rate	9.50%–10.75%
Savings Bank Rate	4%
Deposit Rate	8.50%–9.50%

CONCLUSION

The premise of occasion study is to analyze the returns determined from the stock prices of the pertinent stocks both prior and then afterward the occasion. The present study uncovers that

- after the report of Rbis credit policy, the stock prices of bankex is influenced more, when contrasted with open or private sector banks exclusively. It is clear that there is a high hazard included in the mix of open & private sector banks. Further it is derive that the danger included in private sector banks is high, when contrasted with open sector banks.

- after the proclamation of S&p appraisals on US economy, the stock prices of private sector banks influenced altogether, when contrasted with bankex and open sector banks. Further it is deduce that, there is no effect of S&p evaluations on open sector banks.

On in general premise, it is inferred that, the danger included in private sector banks is high, when contrasted with open sector ba

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