

# Impact of Credit Risk Management on Financial Stability of Public Sector Banks in India

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## Abstract

**Objective:** The purpose of this study is to investigate the impact of credit risk management on financial stability in Indian commercial banks.

**Methods:** This study uses the Z-score to measure financial stability of banks. The key question is which factors affect the Z-score. The study uses secondary data from five public sector banks in India and spans the period of 2015-16 to 2020-21.

**Results:** According to the findings, non-performing loans have no significant relationship to Z-score, whereas loan loss provisions do have a negative relationship to z-score. Additionally, the capital adequacy ratio is positively correlated with the z-score, while a high deposit ratio negatively impacts financial stability.

**Keywords:** *Public sector banks, Credit risk, NPAs, Financial stability, India.*

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