The Share Price Movement Of Indian Banking Shares, can alter the GDP, based on the interest rate

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ABSTRACT
The stock market is the altimeter of Indian budgeting. Trading in the Stock market is subject to market risk, and therefore returns can be affected, although it provides diversification to the portfolio of Retail investors, HNI & FII clients. The investment pattern of each category affects the growth of the country. As investments are reduced due to the risk aversion factor, the GDP fell to 6.0 percent for Q1 FY23, which is the lowest of the two years as per the economic survey of the Ministry of finance, resulting in a domestic slowdown in Q2 FY23. This research work aims to study the effects of an array of fundamental factors like – interest rate risk, counterparty risk, and regulatory risk on the share price movement of Top 5 (SBI, Canara Bank, Union Bank of India, Punjab National Bank, Bank of Baroda) performing public Banking sector stocks listed on the Indian stock exchange. So, the long-term investors should look on to the fundamentals and invest wisely to earn even in the current economic slowdown situation of FY 23. The results suggest that these three factors affect most of the share prices, namely- interest rate risk, counterparty risk, and regulatory risk and explained only interest rate risk taking into consideration.

<table>
<thead>
<tr>
<th>Foreign Exchange Reserves</th>
<th>GDP Growth</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>In US $ billion, year end</td>
<td>At constant prices, in per cent</td>
<td>Average, in %</td>
</tr>
<tr>
<td>478</td>
<td>577</td>
<td>607</td>
</tr>
</tbody>
</table>

Figure 1

List of PSU Banks

<table>
<thead>
<tr>
<th>State Bank of India (SBI)</th>
<th>Number of Branches</th>
<th>Number of ATMs</th>
<th>Headquarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>24000</td>
<td>58559</td>
<td>Mumbai</td>
<td></td>
</tr>
</tbody>
</table>
Punjab National Bank (With Merger of Oriental Bank of Commerce and United Bank of India) 11437 8985 New Delhi

Bank of Baroda (With Merger of Dena Bank & Vijaya Bank) 8581 10318 Vadodara

Canara Bank (With Merger of Syndicate Bank) 10391 12829 Bengaluru

Union Bank of India (With Merger of Andhra Bank and Corporation Bank) 9500 13300 Mumbai

Bank of India 5825 5000 Mumbai

Indian Bank (With Merger of Allahabad Bank) 6000+ 6104 Chennai

Central Bank of India 2876 4666 Mumbai

Indian Overseas Bank 2995 3400 Chennai

UCO Bank 2377 4000 Kolkata

Bank of Maharashtra 1860 1897 Pune

Punjab & Sindh Bank 1045 1554 New Delhi

1. INTRODUCTION
The Indian Banking Sector is the finest employer public sector in India. As per Indian economy survey, the GDP was 8.7 during 2021-22, 7.0 during 2022-23, 6.0 during 2023-24 in percent. All top-rated banking Firms have diversified their business and offer 5 most important banking services are checking and savings accounts, loan and mortgage services, wealth management, providing Credit and Debit Cards, Overdraft services. As the GDP is higher, the interest rates are low and for the lower GDP, the interest rate is high, this shows that the GDP is negatively related to the interest rates of various banks. Which explains there is a relation between GDP and interest rate. GDP(Gross Domestic Product/ growth)is an indicator of the economic health of a country. It is a measure of the economic performance of a country, it also gives indication of the size of the economy. As GDP is such an important indicator, it becomes essential to understand the factors impacting the growth. With deeper understanding and information of the factors impacting GDP, the Government formulates policies and rolls out schemes for the growth of the economy. Stock exchange and interest rate are two crucial factors of economic growth of a country. The impacts of interest rate on stock exchange
provide important implications for monetary policy, risk management practices, financial securities valuation and government policy towards financial markets.

2. LITERATURE REVIEW
Empirical studies evaluating the relationship between growth, inflation and interest rate have historically found all three combinations viz: There exists a positive, negative and no relation between inflation, interest rate and growth. Friedman (1973:41) summarised the inconclusive nature of the relationship between inflation and economic growth as, historically, all possible combinations have occurred: inflation with and without development, no inflation with and without development.

Udoka and Roland (2012) found that interest rate is one of the determinants of economic growth. Interestingly, Bruno and Easterly (1996) observed that episodes of high inflation have witnessed negative growth. McKinnon, R.I. (1973) and Shaw, E (1973) state that higher real interest rates bring about higher levels of savings that consecutively encourage economic growth. They concluded that real interest rates and economic growth are positively associated.

3. DATA & METHODOLOGY
For this study, the data has been collected from secondary sources i.e., from RBI, Office of Economic Adviser and Central Statistics Office, India. The study is conducted for a period from January 2020 to December 2022.

Data:
From Jan 20 - Dec 20

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<td>Canara Bank</td>
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Table 1

Graph 1
### Table 2

**Graphical Representation of Interest Rates (Jan 21 - Dec 21)**

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### Graph 2

**Data:** From Jan 22-Dec 22

### Table 3

**Graphical Representation of Interest Rates (Jan 22 - Dec 22)**

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### Graph 3

**Data:** From Jan 22-Dec 22
From the tables 1 to 3, graphs 1 to 3 can understand the variations in interest rates during Jan 20 to Dec 22, which says about rate movement towards higher, and leads to GDP lower from 8.7 to 6.0 as shown in figure 1 [1].

4. Methodology:
A sample of week ending values of a bank stock index is used as a proxy for the bank industry. The weekly closing interest rates for the 13-week Treasury bill, the 5 year Treasury note, the 10-year Treasury note, and the 30-year Treasury bond were used in the study. Data was taken from January 2020 through December 2022. During this time period, there was both a rising and a falling stock market. There was also a period of relatively high interest rates and a period of falling rates. Therefore, the results should be robust to a variety of market trends.

Independent variables other than interest rate variables used in the study include the price of gold, the value of the U.S. dollar.

One of the common problems associated with using time series economic data is that the series is often non stationary. Since regression techniques require that data in a series be normally distributed, it is necessary to convert the non stationary series into a stationary one. Therefore, first differences of the data were computed and used in the regression analysis. Stepwise regression was used to find the best set of variables to explain changes in bank stock prices [2]. Linear regression model is deployed for analysing the relationship between the variables. The dependent variable is GDP (growth) and independent variables are Inflation and Interest rate, likewise was prepared for the top 5 banks that appeared in the abstract [3].

5. Conclusion:
The results of this study corroborate those from previous studies, i.e. bank stock prices are sensitive to changes in interest rates. From the figure 1, as well as tables 1,2 and 3 with representation of graphs 1,2 and 3, we can conclude that interest rates are higher, due to fall in prices of shares of top 5 banks, can be one of the major part to fall in GDP of India

6. References:
[1] GDP – Inflation – Interest Rate: Nexus in India
[2] Variables Explaining Bank Stock Prices, Jimmy D. Moss, Lamar University, USA Gisele J. Moss, Lamar University, USA.
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[8] Impact Of Fundamental Factors On The Share Price Movement Of Indian It Stocks
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