

Abstract:

Banks have intermediation function to direct credit from economic surplus unit to economic deficit unit but due to this function banks face credit risk. To manage credit risk banks have diversified its loan portfolio by providing loan to various segments of economy and offering different types of products to its customer. Credit risk is vulnerable to macroeconomic changes as macroeconomic changes affects the debtor's ability to pay debt. In Pakistan banks have diversified its credit portfolio into 12 economic segments and 10 product segments. In this paper, the influence of macroeconomic elements on segment wise credit risk of Pakistan's economy has been analyzed for the period starting from quarter 4 of 2010 till quarter 4 of 2013. Panel data Fixed effects technique to analyze effects on segments of loan portfolio. Both bivariate and multivariate analysis has been done to understand how segments reacts to macroeconomic shocks. In case of economic segments, credit risk of automobile and transportation, cement, electronics and textile is increased by macroeconomic changes. Agribusiness, chemical and pharmaceutical, financial, individual, insurance, energy, shoes and leather and sugar industry credit risk is reduced by macroeconomic changes. The credit risk of loans products segments, corporate loans, auto loans, personal loans, commodity financing and staff loans segments is decreased by macroeconomic changes. While credit risk of SME, Agriculture, credit cards, consumer durables, mortgage loans is increased by macroeconomic changes.