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Measures of Nominal and Real Effective Lending Rates of Banks in India

With progressive deregulation of interest rates in the 90s, loan pricing mechanism of banks in India witnessed a significant change. However, in the absence of a comprehensive measure of nominal effective lending rate for the commercial banks, assessment of this change remained challenging. In this context, [this paper](#) provides a comparable annual time series on weighted average lending rates (WALR) for bank credit in India for the period 1992-2010 based on the comprehensive BSR database. The WALR series so constructed makes available a larger dataset than used earlier. This is expected to bridge an important data gap for empirical assessment of the bank lending rate channel of monetary transmission. WALR in nominal terms for the banking industry as a whole and across all sectors has shown a gradual decline. Further, the hypothesis of inverse relationship between output and real lending rate derived from nominal WALR based on WPI and GDP deflator is tested in a simple regression framework. The results were on the expected lines. Moreover, the strength of the relationship improved in the period 1997-2010 reflecting the effects of progressive deregulation of lending rates which enhanced the sensitivity of output to interest rate.

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