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RESERVE BANK OF INDIA

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**RBI Working Paper Series 10:
Net Interest Margin, Financial Crisis and Bank Behavior:
Experience of Indian Banks**

The Reserve Bank of India today placed on its website a Working Paper titled "[Net Interest Margin, Financial Crisis and Bank Behavior: Experience of Indian Banks](#)" under the Reserve Bank of India Working Paper Series* (RBIWPS). The paper has been authored by Shri Tushar B. Das.

In this paper, the author has attempted to assess the impact of the financial crisis on banks' efficiency considering Net Interest Margin (NIM) as an efficiency indicator for the Indian banks. By employing disaggregated bank level data across different ownership categories, the author has analysed the factors influencing Indian banks' margin. Following the monetary transmission literature, the author has also investigated the influence of size, liquidity and capitalisation on the efficiency of banks.

Major findings:

- Bank margins dampened during 1992 to 2010 due to non-performing assets (NPAs) and cost inefficiency.
- Real economic growth influenced the margin in a positive way.
- Well capitalised banks and banks with high deposits concentration could maintain high margin and withstand the impact of crisis.
- Public Sector Banks faced significant erosion of their profitability.
- Banks with high capital and adequate liquidity did not come under pressure during the initial part of the crisis.
- During the second half of the crisis, banks with low capital and limited liquidity found it difficult to maintain the margin.

**The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not those of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*