

**भारतीय रिज़र्व बैंक**
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**RBI Working Paper No. 06/2022: Saving Banks from a Black Swan:
Options and Trade-offs**

Today the Reserve Bank of India placed on its website a Working Paper titled, "[Saving Banks from a Black Swan: Options and Trade-offs](#)" under the Reserve Bank of India Working Paper Series¹. The Paper is authored by Saurabh Ghosh, Pawan Gopalakrishnan, and Abhishek Ranjan.

Banking sector plays a crucial role in resource allocation and economic recovery. Considering its importance, several initiatives have been taken by public policy makers across the world to ensure the resilience of the banking sector during a black swan event (including the COVID-19 pandemic). These include capital infusions, loan moratoria, and restructuring. This paper looks at the role of capital infusions as they provide a cushion to banks against adverse shocks that could result in large defaults. It evaluates the efficacy of capital infusions under different scenarios that include sticky or flexible deposit rates. The findings from the paper indicate that a bank recapitalisation is best done in a flexible deposit/ lending rate environment, as it leads to better transmission. But flexible interest rates (during an easing cycle) may result in lower spending by consumers due to a decline in interest income. Therefore, public policy may need to balance this trade-off, and it may be important to simultaneously carry out demand revival policies along with appropriate and calibrated supply-side reform measures, such as banking capital infusion, to achieve an optimal policy mix.

Press Release: 2021-2022/1894**(Yogesh Dayal)**
Chief General Manager

¹ The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.