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**RBI Working Paper No. 09/2022:
Banks' Credit and Investment Dynamics:
Assessing Portfolio Rebalancing and Crowding-out**

Today the Reserve Bank of India placed on its website a Working Paper titled "[Banks' Credit and Investment Dynamics: Assessing Portfolio Rebalancing and Crowding-out](#)" under the Reserve Bank of India Working Paper Series.* The Paper is authored by Sanjay Singh, Garima Wahi and Muneesh Kapur.

The paper analyses asset portfolio dynamics of Indian banks and the impact of their investment in G-secs on their profitability. The empirical analysis indicates that weak economic conditions and stressed asset quality encourage banks to increase their investments in government securities suggesting a portfolio rebalancing channel. Higher investment by banks in government securities in the face of higher government borrowings indicates the operation of a crowding-out channel, and its impact can be mitigated to an extent by the central bank's market operations. The crowding-out is lower for banks with better asset quality and higher capital adequacy. An increase in share of government securities in banks' asset portfolio is found to have a favourable impact on profitability of public sector banks, pointing towards a better risk-adjusted return from investment in G-secs relative to loans. Overall, policies aimed at strengthening the asset quality and capital position of the banks can lead to an enhanced flow of bank credit to the productive sectors.

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(Yogesh Dayal)
Chief General Manager

*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.