



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

ई-मेल/email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

Department of Communication, Central Office, S.B.S.Marg, Mumbai-400001
फोन/Phone: 022- 22660502

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**RBI Working Paper No. 12/2020:
“Bank Capital and Monetary Policy Transmission in India”**

The Reserve Bank of India today placed on its website a Working Paper titled “[Bank Capital and Monetary Policy Transmission in India](#)” under the Reserve Bank of India Working Paper Series*. The paper is authored by Silu Muduli and Harendra Behera.

The paper examines the role of bank capital in monetary policy transmission in India during the post-global financial crisis period. Bank capital channel explains how monetary policy can affect bank lending by impacting the overall capital position of a bank. Thus, capital can have an important role in both lending and borrowing behaviour of banks.

Major findings of the paper are:

- Banks with higher capital to risk-weighted assets ratio (CRAR) raise funds at a lower cost.
- Banks with higher CRAR transmit monetary policy impulses smoothly, while stressed assets in the banking sector hinder transmission.
- Recapitalization to raise CRAR can improve transmission; however, CRAR above a certain threshold level may not help as the sensitivity of loan growth to monetary policy rate reduces for banks with CRAR above the threshold.
- Monetary policy, thus, can influence credit flows in the economy depending on the capital position of banks.

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(Yogesh Dayal)
Chief General Manager

* 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 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.