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RESERVE BANK OF INDIA

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**RBI Working Paper No. 14/2020:
Asset Quality and Credit Channel of Monetary Policy Transmission in India:
Some Evidence from Bank-level Data**

Today the Reserve Bank of India placed on its website a Working Paper titled "[Asset Quality and Credit Channel of Monetary Policy Transmission in India: Some Evidence from Bank-level Data](#)" under the Reserve Bank of India Working Paper Series*. The Paper is authored by Janak Raj, Deba Prasad Rath, Pratik Mitra and Joice John.

This paper assesses the impact of asset quality of scheduled commercial banks in India on the credit channel of monetary transmission by analysing the determinants of bank credit growth. It finds that a robust credit channel of monetary transmission exists in India. Its efficacy, however, is impaired by poor asset quality of banks, while better capital position helps strengthen the transmission. For monetary policy actions to have their full impact on the credit channel of monetary policy, therefore, it is imperative to address the asset quality stress and strengthen the capital position of banks. The paper also finds that the credit deceleration in India since 2013 could be substantially explained by asset quality stress in the banking system, slowdown in economic activity and moderation in deposit growth. The accommodative stance of monetary policy, however, helped cushion this credit growth slowdown.

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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 consider its provisional character.