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RBI Working Paper No. 1/2021:
Monetary Policy Transmission in India: New Evidence
from Firm-Bank Matched Data

Today the Reserve Bank of India placed on its website a Working Paper titled *"Monetary Policy Transmission in India: New Evidence from Firm-Bank Matched Data"* under the Reserve Bank of India Working Paper Series[*]. The Paper is authored by Saurabh Ghosh, Abhinav Narayanan and Pranav Garg.

Monetary policy transmission has remained a pivotal topic of interest across all central bankers. Empirically, however, it is hard to dis-entangle the effects of a policy change on firms' investment demand, banks' credit supply and their interactions. This paper uses a unique firm-bank matched data set from India to provide new insights into the monetary policy transmission mechanism. The findings of the paper indicate that monetary policy transmission works with a lag for bank lending. For firms, aggregate demand conditions in the market may drive investment demand which may, in turn, be correlated with the monetary policy easing cycle. However, final credit flows from banks depend on the liquidity position of banks that the firms are attached to. These findings indicate the importance of banks' liquidity in addition to the balance sheet channel for improving the efficacy of monetary policy transmission.

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