



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: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

May 18, 2012

RBI Working Paper Series : 7 / 2012

Measures of Nominal and Real Effective Lending Rates of Banks in India

With progressive deregulation of interest rates in the 90s, loan pricing mechanism of banks in India witnessed a significant change. However, in the absence of a comprehensive measure of nominal effective lending rate for the commercial banks, assessment of this change remained challenging. In this context, [this paper](#) provides a comparable annual time series on weighted average lending rates (WALR) for bank credit in India for the period 1992-2010 based on the comprehensive BSR database. The WALR series so constructed makes available a larger dataset than used earlier. This is expected to bridge an important data gap for empirical assessment of the bank lending rate channel of monetary transmission. WALR in nominal terms for the banking industry as a whole and across all sectors has shown a gradual decline. Further, the hypothesis of inverse relationship between output and real lending rate derived from nominal WALR based on WPI and GDP deflator is tested in a simple regression framework. The results were on the expected lines. Moreover, the strength of the relationship improved in the period 1997-2010 reflecting the effects of progressive deregulation of lending rates which enhanced the sensitivity of output to interest rate.

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 RBI and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not that of RBI. Comments and observations may please be forwarded to authors. Citation and use of such papers should take into account its provisional character.

Press Release : 2011-2012/1841

Ajit Prasad
Assistant General Manager