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**“A STUDY ON THE IMPACT OF RBI REPO RATE CHANGES ON  
COMMERCIAL BANKS IN INDIA”**

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Article Received: 25 April 2026, Article Revised: 15 May 2026, Published on: 05 June 2026

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DOI: <https://doi-doi.org/101555/ijarp.4162>

**ABSTRACT**

This paper digs into how changes in the Reserve Bank of India’s repo rate shape the fortunes of commercial banks between FY 2014–15 and FY 2023–24. Using a mix of descriptive analysis and long-term data, it looks at the way shifting monetary policy cycles affect big banking numbers—things like net interest margins, credit growth, bad loans, and overall profitability.

Something changed in October 2019. That’s when the RBI rolled out the External Benchmark-Based Lending Rate, which made banks pass repo rate changes to borrowers a lot faster and more completely, especially in retail and MSME loans. Banks still move at slightly different speeds—when repo rates change, they adjust the interest they pay and the interest they charge, but not at the same pace. That imbalance gives banks a window to boost profits, whether rates are going up or down.

When it comes to bad loans (NPAs), it’s not really the repo rate itself that drives the trend. What’s more important is the quality of the credit cycle and the tools banks have to resolve stressed assets. The latest tightening cycle, from FY 2022–24, has been golden for profitability, especially for public sector banks—their ROA hit 0.90% and ROE soared to 15.8%, numbers they haven’t seen in more than ten years.

There’s a clear gap, though, in how public and private banks react to repo rate moves. PSBs and private banks don’t respond the same way, and that divergence sticks around. The paper wraps up with some policy ideas for bank managers, regulators, and the RBI itself, plus some directions for future econometric research.

**KEYWORDS:** Repo Rate, Monetary Policy Transmission, Net Interest Margin, Non-Performing Assets, Credit Growth, Commercial Banks, EBLR, Indian Banking Sector

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## 1. INTRODUCTION

### 1.1 The Reserve Bank of India and Its Role

The Reserve Bank of India — often called the RBI — sits at the top of India’s financial system. It got its start on April 1, 1935, thanks to the RBI Act of 1934, and the government took full control in 1949. The RBI handles a lot: it prints money, keeps the government’s accounts, steps in if banks are in trouble, and makes sure banks follow the rules. But probably its most important job is setting and carrying out monetary policy, which keeps prices steady, the financial system stable, and the economy growing at a healthy pace. To get this done, the RBI relies on a handful of tools: repo rate, reverse repo rate, Cash Reserve Ratio (CRR), and Statutory Liquidity Ratio (SLR). These tools control how much money flows through the system and what it costs to borrow. Among these, the repo rate has become the main lever—especially since 2016, when India started targeting inflation more directly.

### 1.2 The Repo Rate: Mechanism and Significance

The repo rate is simply the rate banks pay when they borrow money from the RBI for the short term, using government securities as collateral. If the RBI raises the repo rate, banks have to pay more to borrow, so they boost their own lending rates. That makes borrowing costlier for everyone else, which slows down spending and keeps prices from rising too quickly. When the RBI cuts the repo rate, banks’ borrowing costs drop, making loans cheaper and nudging the economy forward. The reverse repo rate works alongside the repo rate. When the RBI wants to mop up extra money floating around in the banks, it offers to take deposits at the reverse repo rate. Both rates operate under what’s called the Liquidity Adjustment Facility (LAF), which lets the RBI fine-tune short-term interest rates. Together, they’re basically the gears that drive India’s monetary policy.

### 1.3 Background and Motivation of the Study

Banks are where monetary policy meets the real world. India's commercial banks handle more than ₹200 lakh crore in assets, so even small changes in RBI's policy rates ripple through the economy. In 2016, India made a huge shift—moving to a flexible inflation-targeting system. Now, the goal is to keep inflation, measured by the Consumer Price Index (CPI), around 4%, within a 2% band on either side. This new regime relies on the Monetary Policy Committee (MPC) to make decisions in a more predictable and systematic way.

From 2014–15 to 2023–24, the repo rate traveled quite a distance: starting at 8.00%, dropping to a record-low 4.00% during the COVID-19 slump, then climbing again to 6.50% after tighter policies in 2022–23. These swings across different cycles—easing, holding steady, emergency moves, rapid tightening, and longer pauses—offer a solid way to examine how policy changes affect the banking sector.

### 1.4 Objectives of the Study

- Track how the RBI's repo rate moved from 2014–15 to 2023–24, looking at the various policy cycles.
- See how changes in the repo rate influenced the credit growth of scheduled commercial banks in India.
- Explore how repo rate shifts affected banks' net interest margins (NIM).
- Analyze the connection between monetary policy cycles and non-performing asset (NPA) trends.
- Evaluate how repo rate changes impacted bank profitability, focusing on ROA and ROE.
- Compare how public sector banks and private sector banks were affected differently by repo rate changes.

### 1.5 Scope and Limitations

This study includes all scheduled commercial banks in India—public, private, and foreign—over ten years, from 2014–15 to 2023–24. It draws on sector-wide data and picks out some individual banks to illustrate its findings. The research relies solely on secondary sources: RBI reports, bank annual reports, and academic studies. No surveys or interviews were conducted.

There are a few limitations to keep in mind: First, it's tough to single out the repo rate's effect since other big factors—like GDP growth, government spending, and global interest rates—play a role. Second, monetary policy doesn't work instantly; there's usually a lag of

four to six quarters before the impact shows up. And finally, the study's accuracy depends on the quality of published data by banks and the RBI.

### **1.6 Significance of the Study**

This study matters to a lot of people. Bank managers can use the insights to build stronger Asset Liability Management systems that protect against interest rate swings. Investors and equity analysts get a clearer way to predict how changes in rates affect bank profits and market values. Policymakers and the RBI can spot structural details in how rates move through the system, which helps them make smarter rate decisions. And for researchers, this study offers fresh data on how monetary policy works in India, especially after the big structural shift in 2019 with the EBLR.

## **2. LITERATURE REVIEW**

### **2.1 Theoretical Framework**

The central bank policy rates and commercial bank behaviour are connected through theories. One theory is the monetary transmission mechanism, which was talked about by Mishkin in 1995. This theory says that changes in the policy rate affect the economy in ways: through interest rates, credit, asset prices and exchange rates. In India the interest rate channel and credit channel are very important because the countrys capital markets are not as strong as its bank-based financing.

The term structure of interest rates theory says that short-term policy rates, which are controlled by the central bank influence long-term rates by changing peoples expectations of short-term rates. For banks the difference between short-term deposit rates and long-term lending rates is crucial for their profitability. This difference is called the Net Interest Margin. When the policy rate changes it directly affects this difference. Therefore the banks earnings. The bank lending channel theory, which was discussed by Bernanke and Gertler in 1995 says that monetary policy affects bank balance sheets directly which in turn affects the credit supply for banks with lower capital buffers.

### **2.2 Empirical Studies: Interest Rate Channel in India**

Patra and Kapur studied the monetary transmission mechanism in India in 2012 and found that the interest rate channel works, but not perfectly. They said that it takes around four to six quarters for the repo rate to fully affect lending rates. Mohanty found in 2012 that there is a negative relationship between the repo rate and non-food credit growth. This means that when the repo rate increases credit growth decreases. Khundrakpam and Jain used a model to

study this and found that monetary policy shocks account for a significant part of the variation in bank lending rates but with a lag of three to four quarters.

### **2.3 Studies on NIM and Bank Profitability**

Demirguç-Kunt and Huizinga did a big study across many countries in 1999 and found that higher real interest rates are associated with higher bank Net Interest Margins and profitability. However this relationship depends on how competitive the banking market's. Sharma and Gupta found in 2020 that there is a run negative relationship between the repo rate and NIM for public sector banks. However private sector banks are better at protecting their margins through dynamic pricing strategies. Rakshit and Bardhan found that bank profitability is significantly and positively associated with the interest rate spread and that prolonged low-rate environments compress margins.

### **2.4 Studies on NPA and Asset Quality**

Ghosh found in 2015 that there is a positive relationship between interest rate increases and subsequent NPA levels but with a lag of two to three years. This is because when interest rates rise borrowers find it harder to repay their loans. Kaur and Singh found that the credit boom triggered by low repo rates in 2013-2014 led to an accumulation of NPAs that surfaced in 2016-2018. The RBI Financial Stability Reports have consistently said that NPA levels are sensitive to interest rate shocks in small and medium-sized enterprises and retail portfolios.

### **2.5 Research Gaps**

The existing research has some gaps. First most studies were done before the inflation-targeting framework was adopted in 2016 and the External Benchmark-Based Lending Rate system was introduced in 2019. These changes fundamentally altered the transmission mechanism. Second the impact of repo rate changes on sector versus private sector banks in the post-EBLR era has not been studied enough. Third the research mostly focuses on data from before the COVID-19 pandemic. Misses the unique dynamics of the 2020-2022 period. This study tries to address these gaps by providing an updated and comprehensive analysis from FY 2014-15 to FY 2023-24.

### 3. RESEARCH METHODOLOGY

#### 3.1 Research Design

This study uses an analytical research design. The descriptive part involves looking at the changes in the repo rate and how it affects the banking sector. The analytical part examines the relationship between the repo rate and selected banking parameters using trend analysis and ratio comparisons. The study covers ten years from FY 2014-15 to FY 2023-24 to capture multiple monetary policy cycles.

#### 3.2 Data Sources

The study uses the following sources:

- RBI Annual Reports from 2015 to 2024 and the RBI Handbook of Statistics on the Economy
- RBI Report on Trend and Progress of Banking in India
- RBI Financial Stability Reports
- Published Annual Reports and Financial Statements of scheduled commercial banks
- SEBI financial disclosures and stock exchange filings
- Ministry of Finance publications, including the Economic Survey 2022-23
- Academic journals, like the Journal of Banking and Finance Economic and Political Weekly and RBI Working Papers

#### 3.3 Variables of the Study

Table 3.1: Variables Used in the Study.

Variable	Type	Measure	Source
Repo Rate	Independent	Annual average (%) per MPC decision	RBI
Non-Food Credit Growth	Dependent	YoY % change	RBI DBIE
Net Interest Margin (NIM)	Dependent	Net Interest Income / Avg. Earning Assets (%)	Bank Annual Reports
Gross NPA Ratio	Dependent	Gross NPA / Gross Advances (%)	RBI FSR
Return on Assets (ROA)	Dependent	Net Profit / Total Assets (%)	RBI FSR
Return on Equity (ROE)	Dependent	Net Profit / Net Worth (%)	Bank Annual Reports
Deposit Growth	Dependent	YoY % change in deposits	RBI

### 3.4 Analytical Techniques

The techniques we used to analyze the data are:

- Trend Analysis. We made line graphs and tables to see how the repo rate and banking indicators changed over time. We wanted to see if they moved in the direction.
- Ratio Analysis. We compared ratios across different years and types of banks.
- Descriptive Statistics. We calculated the standard deviation and range of key variables.
- Period- Comparison. We divided the study period into different phases of monetary policy.

We compared how banks performed during these phases.

### 3.5 Period of Study and Policy Phase Classification

Our study looked at data from FY 2014–15 to FY 2023–24. This period had four monetary policy phases. The first phase was the Easing Cycle from 2015 to 2017. The repo rate was cut by 175 basis points during this time. The next phase was the Neutral–Tightening Phase from 2017 to 2019. The repo rate was. There were some rate hikes. Then there was the COVID-Era Easing phase from 2020 to 2022. The repo rate went down to a low of 4.00% during this time. The last phase was the Tightening Cycle from 2022 to 2024. The repo rate was increased by 250 basis points in a time. We looked at the study period, in these phases. This helped us understand how monetary policy affected the banks in contexts.

## 4. RBI Repo Rate Trends (FY 2014–15 to FY 2023–24)

### 4.1 Evolution of India's Monetary Policy Framework

India's policy has changed a lot over time. Before 2016 the RBI used indicators to make decisions but it did not have a clear goal. Then in 2016 the RBI Act was changed. This change made the RBI focus, on keeping inflation at 4% with some flexibility using the repo rate as the tool. The Monetary Policy Committee, which includes RBI members and outside experts now makes decisions by voting. This process is more transparent. Helps banks set interest rates in a more predictable way. The RBI repo rate is now used to control inflation. The Monetary Policy Committee meets to decide on the repo rate. The RBI repo rate affects how banks lend and borrow money. The goal of the RBI repo rate is to keep inflation at 4%. The RBI repo rate has changed over time to achieve this goal.

## 4.2 Decadal Repo Rate Trajectory

*Table 4.1: RBI Repo Rate Changes, FY 2014–15 to FY 2023–24 | Source: RBI MPC Resolutions.*

Financial Year	Repo Rate (%)	Change (bps)	Policy Stance	Key Context
2014-15	7.50	-50	Accommodative	RBI begins calibrated easing
2015-16	6.75	-75	Accommodative	Inflation softens; growth support
2016-17	6.25	-50	Accommodative	MPC constituted; demonetisation
2017-18	6.00	-25	Neutral	Normalisation; GST rollout
2018-19	6.50	+50	Calibrated Tightening	Oil price rise; INR weakens
2019-20	4.40	-210	Accommodative	COVID-19 pandemic; emergency cuts
2020-21	4.00	-40	Accommodative	Continued COVID support
2021-22	4.00	0	Accommodative	Recovery; inflation begins rising
2022-23	6.50	+250	Withdrawal of Accommodation	Aggressive tightening vs. inflation
2023-24	6.50	0	Withdrawal of Accommodation	Pause; monitoring inflation

## 4.3 Phase-wise Analysis of Monetary Policy Cycles

### 4.3.1 Easing Cycle from 2015 to 2017

The Reserve Bank of India reduced the repo rate by a total of 175 basis points from 8.00% to 6.25% during this time. This happened because global commodity prices were going down and people in India were not spending much. However the banks did not completely pass on these rate cuts to the people who borrowed money. The Reserve Bank of India found that the banks only passed on 60-70% of the rate cuts to the people who borrowed money. This is why the Reserve Bank of India decided that the banks had to use the Marginal Cost of Funds based Lending Rate system from April 2016. This system made sure that the banks lending rates were closely tied to the actual cost of borrowing money.

#### **4.3.2 Neutral and Brief Tightening Phase from 2017 to 2019**

After the government removed a lot of cash from the economy and introduced a tax system the Monetary Policy Committee decided to take a neutral stance. When the price of oil started going up the value of the rupee started going down and inflation started going up in 2018 the Monetary Policy Committee increased the repo rate by 25 basis points two times. This took the repo rate to 6.50%. The banks then increased their lending rates, which meant that people who borrowed money had to pay interest. However this happened slowly over time.

#### **4.3.3 COVID-Era Aggressive Easing from 2020 to 2022**

When the COVID-19 pandemic started the Reserve Bank of India reduced the repo rate quickly. In March 2020 the Reserve Bank of India reduced the repo rate by 75 basis points. Then in May 2020 the Reserve Bank of India reduced the repo rate by another 40 basis points. This took the repo rate to a low of 4.00%. The Reserve Bank of India kept the repo rate at this level for two years. The Reserve Bank of India also did things to help the economy, such as giving banks money for a long time and allowing people to stop paying back loans for some time.

#### **4.3.4 Tightening Cycle from 2022 to 2024**

When inflation started going up around the world because of the war between Russia and Ukraine and because of problems with getting things from one place to another after the pandemic the Reserve Bank of India increased the repo rate very quickly. In May 2022 the Reserve Bank of India increased the repo rate by 40 basis points. Then the Reserve Bank of India increased the repo rate a few times, which took the repo rate to 6.50%. The Reserve Bank of India has kept the repo rate at this level since February 2023. Is watching very closely to see what happens to inflation and the economy.

#### **4.4 Transmission Architecture: Base Rate to EBLR**

It is very important for the Monetary Policy Committee to be able to get the banks to lend money at the interest rates. India has tried a different ways to get the banks to do this. The Base Rate System, which was used before April 2016 allowed the banks to decide what interest rate they wanted to lend money at. This system did not work well because the banks did not always lend money at the right interest rates. The Marginal Cost of Funds based Lending Rate System, which was used from April 2016 was a little better because it made the banks lend money at interest rates that were closely tied to their actual cost of borrowing money. However this system still had some problems because the banks only changed their

interest rates a few times a year. The External Benchmark-Based Lending Rate System, which was started in October 2019 is the system so far because it makes the banks lend money at interest rates that are tied to the repo rate and the banks have to change their interest rates every month.

Now when the Reserve Bank of India changes the repo rate the banks change their interest rates quickly. However there are still some loans that were given out before the External Benchmark-Based Lending Rate System was started and these loans do not have the interest rates yet. This means that the Monetary Policy Committees decisions are not being passed on to all people who borrow money equally. As time goes on more and more loans will be given out with the interest rates and the Monetary Policy Committees decisions will have a bigger impact, on the economy.

## 5. DATA ANALYSIS AND INTERPRETATION

### 5.1 Impact on Credit Growth

Credit growth of scheduled commercial banks is a direct barometer of monetary policy transmission to the real economy. Non-food credit growth reflects the appetite of businesses and households to borrow — an appetite strongly influenced by prevailing interest rates, income levels, and risk sentiment.

*Table 5.1: Repo Rate and Non-Food Credit Growth, FY 2015–16 to FY 2023–24 | Source: RBI DBIE.*

Financial Year	Repo Rate (%)	Non-Food Credit Growth (YoY %)	Monetary Phase
2015-16	6.75	10.9	Easing
2016-17	6.25	8.3	Easing
2017-18	6.00	10.0	Neutral
2018-19	6.50	13.3	Tightening
2019-20	4.40	6.1	Easing (COVID)
2020-21	4.00	5.6	Easing (COVID)
2021-22	4.00	9.6	Easing
2022-23	6.50	15.4	Tightening
2023-24	6.50	16.3	Hold

The data shows a relationship. Unlike what most people think the years when COVID rules were relaxed (2019-2020 and 2020-2021) saw credit growth (5-6%). This happened even

when interest rates were at their businesses and households were cautious and did not want to borrow money even with cheap loans available. On the hand when interest rates went up in 2022-2024 credit growth was over 15-16%. This was because people and businesses had a desire to spend after the pandemic there was more money being spent on infrastructure and the job market was doing well. These factors were more important than the interest rates. This finding highlights that peoples need for money can sometimes be more important than the interest rates. It also shows that simply lowering interest rates is not enough to encourage borrowing when people are generally being cautious.

### 5.2 Impact on Net Interest Margin (NIM)

The Net Interest Margin is the difference, between the interest earned on loans and the interest paid on deposits. It is shown as a percentage of the assets that earn money. This margin is the factor that affects how profitable a bank is. It is directly influenced by the interest rate environment.

**Table 5.2: Net Interest Margin of Commercial Banks, FY 2015–16 to FY 2023–24 | Source: RBI FSR, Bank Annual Reports.**

Financial Year	Repo Rate (%)	PSB NIM (%)	Private Bank NIM (%)	All SCB NIM (%)
2015-16	6.75	2.62	3.42	2.88
2016-17	6.25	2.55	3.48	2.89
2017-18	6.00	2.49	3.65	2.92
2018-19	6.50	2.55	3.70	2.96
2019-20	4.40	2.67	3.35	2.84
2020-21	4.00	2.80	3.22	2.90
2021-22	4.00	2.97	3.41	3.04
2022-23	6.50	3.15	4.02	3.38
2023-24	6.50	3.20	4.15	3.45

Three important things stand out. First private sector banks make money from interest than public sector banks. This is because they have control over prices more retail loans and manage their liabilities better. The difference in their earnings has grown recently. Private banks took advantage of changing interest rates to make money. Second, during the COVID period when interest rates were low, banks. Even increased their earnings. Even though rates

fell they cut deposit rates faster than lending rates. This helped their profits. It shows that banks adjust their rates in a way that helps their profits.

Third when interest rates started rising again banks made the money from interest. They quickly increased lending rates. Deposit rates took longer to go up.

This helped their profits a lot. This increase in earnings helped Indian banks make record profits.

### 5.3 Impact on Non-Performing Assets

Non-Performing Assets are loans where borrowers have not paid back for 90 days or more. This is a measure of a bank's health. The relationship, between interest rates and Non-Performing Assets is complex. There are factors and time lags involved.

### 5.4 Impact on Bank Profitability: ROA and ROE

Return on Assets (ROA) and Return on Equity (ROE) are the most widely used profitability metrics for financial institutions, capturing the efficiency with which banks convert assets and equity capital respectively into net profit.

**Table 5.4: Profitability Indicators of Commercial Banks, FY 2015–16 to FY 2023–24 | Source: RBI FSR, Bank Annual Reports.**

Financial Year	Repo (%)	ROA PSBs (%)	ROA Pvt (%)	ROE PSBs (%)	ROE Pvt (%)
2015-16	6.75	-0.18	1.62	-4.2	11.8
2016-17	6.25	-0.08	1.55	-1.9	10.8
2017-18	6.00	-0.15	1.40	-3.5	9.5
2018-19	6.50	0.02	1.51	0.4	10.2
2019-20	4.40	0.15	1.20	2.8	7.2
2020-21	4.00	0.31	1.25	6.2	8.1
2021-22	4.00	0.47	1.63	8.9	12.1
2022-23	6.50	0.73	1.84	13.5	14.7
2023-24	6.50	0.90	1.90	15.8	16.2

The Indian banking system has seen a change in terms of making money. The public sector banks were losing a lot of money between 2015 and 2018 because they had to set aside a lot of money for loans. These banks have made a big comeback. By 2023 the public sector banks had their returns in over ten years. They made a return of 0.90 percent on their assets

and 15.8 percent on their equity. This happened when interest rates were going up which helped the banks make money from the difference between the interest they paid and the interest they got.

The public sector banks recovery is because of things coming together. The banks were able to deal with their loans they put aside more money for bad loans they were able to make more money as they lent more the government gave them more money and they made more money from interest rates going up.

The private sector banks were always making money. They are doing even better now. In 2023 they had their returns with a return of 1.90 percent on their assets and 16.2 percent on their equity. The fact that the public sector banks and the private sector banks are now making amounts of money shows that the public banking system in India is getting better. This is a deal, for the whole system.

### 5.5 Impact on Deposit Mobilisation

**Table 5.5: Deposit Growth and Term Deposit Rates, FY 2015–16 to FY 2023–24 |.**

Financial Year	Repo Rate (%)	Deposit Growth (YoY %)	1-Year TD Rate (approx %)
2015-16	6.75	10.2	6.50
2016-17	6.25	11.8	6.25
2017-18	6.00	6.7	6.00
2018-19	6.50	9.1	6.50
2019-20	4.40	8.7	5.00
2020-21	4.00	11.4	4.50
2021-22	4.00	9.0	4.75
2022-23	6.50	9.6	6.50
2023-24	6.50	11.1	7.00

Source: RBI DBIE, Bank Annual Reports

The deposit data shows a connection between the repo rate and deposit growth. This is because many factors beyond interest rates drive deposit growth.

In 2020-21 deposits grew by 11.4%. This was during a time when the repo rate was at its lowest. People saved more during the pandemic, which drove this growth not the deposit interest rates.

In 2023-24 deposits grew by 11.1%. This growth is directly linked to higher term deposit rates, which were around 7.00% for one-year deposits. This happened as interest rates increased.

A concern in 2023-24 is that the credit-to-deposit ratio has risen. The RBI has expressed worry about how banks manage liquidity. They are encouraging banks to get deposits.

## **6. KEY FINDINGS**

### **6.1 Finding**

#### **1: Structural Improvement in Monetary Transmission**

The EBLR system was introduced in October 2019. This changed how India's monetary policy works. Now a big part of loans, home loans, personal loans and MSME credit, is directly linked to the repo rate. The interest rates for these loans change every month.

In 2022-23 when interest rates went up EBLR-linked lending rates adjusted quickly within one to two months. This is much faster than before. This change makes monetary policy actions more effective.. It also means borrowers who have floating-rate loans are more exposed to interest rate risk.

### **6.2 Finding**

#### **2: Asymmetric NIM Dynamics**

Banks adjust interest rates for loans and deposits at speeds. When interest rates are going down deposit rates are cut faster than lending rates. This helps banks protect their profits.

When interest rates are going up lending rates go up faster than deposit rates. This also helps banks profits. Private sector banks are better at managing this than public sector banks. They keep their profits 80-100 basis points higher.

### **6.3 Finding**

#### **3: NPA Dynamics Are Credit-Cycle, Not Rate-Cycle Driven**

It's often thought that lower interest rates reduce loans and higher interest rates increase them. That's not true. The main reasons for loans in India are:

- How good banks are at checking borrowers creditworthiness during times
- How well banks resolve loans
- How banks recognize loans

The problems with bad loans from 2015-2018 came from a credit boom earlier. Solving these problems had more to do with laws and better provisioning than with monetary policy.

High interest rates for a long time can lead to more bad loans, especially for MSME and retail borrowers, with EBLR-linked loans. This needs to be watched.

**6.4 Finding 4: Public–Private Bank Divergence**

*Table 6.1: Comparative Analysis — PSBs vs. Private Sector Banks | Source: RBI FSR, Author's Compilation.*

Parameter	Public Sector Banks	Private Sector Banks
NIM – Average (2015–24)	~2.70%	~3.60%
Gross NPA Peak	14.6% (FY 2018)	5.0% (FY 2018)
ROA – FY 2023–24	0.90%	1.90%
CASA Ratio (average)	~42%	~45%
Credit Growth (average)	~7% p.a.	~16% p.a.
Sensitivity to Repo Rate	High (large SLR book, MCLR exposure)	Moderate (CASA buffer, retail focus)

The difference is big. It has been going on for a long time but the fact that Public Sector Banks or PSBs made a profit in the years 2022 to 2024 is really something. For a time PSBs were losing money because they had to pay for bad loans and they had some problems with the way they were run. But now PSBs are doing better and this is because the government gave them some money there is a new way to solve bad loan problems the people in charge of the banks are doing a better job and the banks are making more money from the interest they charge.

**6.5 Finding**

**5: Non-Linear Credit–Rate Nexus**

The years when COVID was a problem showed us that just making it easier for people to borrow money is not enough to get them to borrow more when they are scared and do not want to take risks. In the year 2020 the Reserve Bank of India or RBI made it easier for people to borrow money by lowering the interest rate. This did not make people want to borrow more money. This is because both banks and the people who wanted to borrow money were being very careful. On the hand when the RBI made it harder for people to borrow money in the years 2022 to 2024 this did not stop people from borrowing money right away because people had more money and they wanted to buy things they had been waiting to buy. This is like what Keynes said, that sometimes making it easier for people to borrow

money is not enough and you need to make sure that people want to borrow money and that the banks are healthy.

## **7. CONCLUSION AND RECOMMENDATION**

### **7.1 CONCLUSION**

This paper looked at how the interest rate set by the RBI affects the banks in India from the years 2014 to 2024. The paper found that the interest rate is a tool that the RBI uses but it affects the banks in many different ways and it depends on the state of the economy and the rules that the banks have to follow. The important thing that the paper found is that when the interest rate goes up or down it affects how much money the banks make from the interest they charge. The years 2022 to 2024 were very good for the banks in India and both the PSBs and the private banks made a lot of money.

The paper also found that the relationship between the interest rate and how much people borrow is not simple. Sometimes when the interest rate is low people do not want to borrow money because they are scared or they do not have money. The paper also found that the number of loans that the banks have is not just affected by the interest rate but also by the quality of the loans and how well the banks are run. The difference between the PSBs and the private banks in how they're affected by the interest rate is getting smaller and this is because the government gave the PSBs some money and they are being run better.

### **7.2 Recommendations**

#### **7.2.1 For Commercial Banks**

- The banks should be better at managing the risks that come with borrowing and lending money. They should use tools to protect themselves from sudden changes in the interest rate.
- The banks should try to get more people to put their money in the bank because this will help the banks to make money and to be less affected by changes in the interest rate.
- The banks should be more careful when they lend money to people especially when the interest rate is low. They should make sure that the people who borrow money can pay it back.
- The banks should tell the people who borrow money how the changes in the interest rate will affect them so that they can make decisions.

### 7.2.2 For the Reserve Bank of India

- The RBI should make sure that all the banks are using the way of setting the interest rate, which is based on the interest rate in the market.
- The RBI should have tools to prevent the banks from taking too many risks when the interest rate is low.
- The RBI should watch the banks that lend money to businesses and individuals more closely because they are more affected by changes in the interest rate.

### 7.2.3 For Policymakers and Regulators

- The government should make the rules for solving loan problems better so that the banks can get rid of the bad loans more easily.
- The government and the RBI should work together closely so that they can make sure that the economy is growing and that the banks are healthy.
- The government should make sure that the PSBs are being run well and that the people in charge of the banks are doing a job.

### 7.3 Directions for Future Research

This paper shows that there are things that we still need to learn about how the interest rate affects the banks in India. We need to do research to understand how the interest rate affects the banks and how the banks can be more stable and make more money.

### 7.4 Concluding Remarks

The interest rate is a powerful tool that the RBI uses to control the economy. The banks, in India are affected by the interest rate in different ways and the interest rate can make the banks more or less stable. The RBI and the government should work together to make sure that the economy is growing and that the banks are healthy. The banks should be careful. Make sure that they are not taking too many risks because this can make them unstable.

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