Abstract

Impact of changes in policy rate of interest on demand for bank credit is examined for seven emerging market economies including India for the period 2002 to 2010. Panel data techniques are used after ruling out the presence of unit roots. The results show that when other determinants, like domestic demand pressure, export demand and impact of stock market signals are controlled for, change in policy rate of interest is an important determinant of firms' demand for bank credit. The results confirm that monetary policy is an important countercyclical tool for setting the pace of economic activity.

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