

Abstract

The impact of changes in policy rates on the demand for bank credit and thereby on the pace of economic activity in emerging market economies like India, is an interesting question. EMEs in the sample are Brazil, India, Chile, Korea, Mexico, South Africa and Turkey. The period of study is 2002-2010— the post reform period, preceded by extensive reforms in banking and the financial sector. Citing greater degree of uncertainty surrounding economic activity in developing countries, it has been argued that since changes in policy rates are incremental in nature, these would be rather ineffective in initiating any substantive changes in the real sector. The recent surge in global capital flows in open EMEs has added another challenge to the very existence of an independent monetary policy. This paper is a part of a larger research project about monetary policy in India and some other EMEs. The specific question we address in this first study is ,to examine, to what extent do changes in policy rates influence the credit demand in EMEs. Using data from the panel of seven EMEs, GLS estimates are obtained by using Fixed Effect and Random Effect models. In contrast to the general perception, our data analysis and econometric results suggest a close association between the policy rate and credit demand and this association runs through what can be called ***policy rate channel***- a hybrid of the traditional “**interest rate channel**” and “**credit channel**”.

Brief Profile

Dr. B L Pandit is currently holding RBI Chair at ICRIER. He has served as Professor and Head, Department of Economics, Delhi School of Economics. He got his PhD in Economics from Delhi School of Economics, University of Delhi. He has taught courses in Macroeconomic Theory, Monetary Theory and Policy and Financial Markets at the Delhi School of Economics besides supervising M Phil and PhD students. He has published papers in peer reviewed national and international journals. His research has also been published in books by *Oxford University Press and Routledge*. His research project studies have been sponsored by *Canadian International Development Agency, CIDA, FICCI and Reserve Bank of India*. He has presented papers and attended conferences in Toronto and UNCTAD Geneva. He is a life member of The Indian Econometric Society, TIES and is a member of the Editorial Board of *Indian Economic Review*.