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A RBI's Monetary Policy and Its Impact on Commercial Banks

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Abstract:

The objective of the research is to examine the reserve banks of India (RBI) monetary policy and its effect on the commercial banks financial operations in India, as the national regulator, the RBI adopts a combination of instruments to strike a balance between inflation and the promotion of economic growth, the research starts with the description of the monetary policy and its instruments and explains why it is the backbone of the Indian banking system and financial structure. The core of the research is based on the direct connection between the particular RBI instrument such as Repo Rate, Reverse Repo Rate, Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), Open Market Operation (OPM), And Day to Day Operations of the Banks. Through the analysis of these connections, the research points out how the slight change in the policy rates can greatly affect the lending capacity and profitability of the banks. Which determines the rate of the economic growth. It goes beyond the simple operation to analyze the ripple effect of the bank's profitability, liquidity, and stability. Also, the research describes the inflation rate and the borrowing ratio of the commercial banks.

Keywords — **Monetary policy, Repo rate, CRR, SLR, NIM, lending behaviour.**

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I. INTRODUCTION

The financial institution plays a vital role in the promoting economic development while central banks acts as the nerve centre. The rbi serves as India's apex monetary authority, ensuring price and financial stability .it manage the economy by regulating money supply, currency issue & foreign exchange. Monetary policy is the primary tools used by RBI to control inflation and encourage sustainable growth. the key instrument includes repo rate, reverse repo rate, CRR, SLR, OPM. By adjusting these rate RBI manage and adopts either an expansionary or contractionary stance. commercial banks acts as the essential bridge between RBI and real economy. they transmit policy change by changing the lending and deposit rate of public. the effectiveness of this policy depends on how efficiency banks pass on rate change, recent global tension and inflation have tested the RBI macro-economic balancing policy. This study analyses how RBI regulation changes the banks financial activities, bank profitability, credit creation and lending behaviour. Ultimately it evaluates the resilience of the banking system in the shifting economic climate.

II. OBJECTIVES OF THE STUDY

- To study the concept and importance of monetary policy in the Indian banking system.
- To examine the relationship between the RBI's monetary policy instruments (Repo Rate, Reverse Repo Rate, CRR, SLR, and OMO) and the performance of commercial banks.

III. SCOPE OF THE STUDY

This study will try to identify how the Reserve Bank of India's (RBI) monetary policy instruments specifically Repo Rate, CRR, and SLR impact the operational performance of public and private scheduled commercial banks. By analysing secondary data, the research explores how this policy adjustments influence lending behaviour, liquidity management, and profitability. The scope is on the monetary transmission mechanism, assessing how effectively RBI's shifts to control inflation and growth are reflected in bank performance. While it excludes NBFCs and cooperative banks, the findings aim to highlight patterns in financial stability and identify opportunities to strengthen the resilience of India's banking sector.

IV. STATEMENT OFTHE PROBLEM

This study explores how the Reserve Bank of India's (RBI) monetary policy tools specifically Repo, Reverse Repo, CRR, and SLR impact the operations and performance of commercial banks. While these instruments are designed to control inflation and manage liquidity, the monetary transmission process is often hindered by delays, meaning policy rate changes do not always immediately or uniformly reflect in bank lending and deposit rates. Against a backdrop of global uncertainty and liquidity shortages, the research aims to identify the factors that influence how effectively and quickly these policy shifts translate into actual banking outcomes, such as credit creation and profitability

V. RESEARCH METHODOLOGY

- Data Collection

Secondary data: For secondary data, the related journals, articles, websites, and past thesis were referred for this project.

VI. TOOLS USED FOR ANALYSIS

- Trend analysis
- Ratio analysis

VII. LIMITATIONS OF THE STUDY

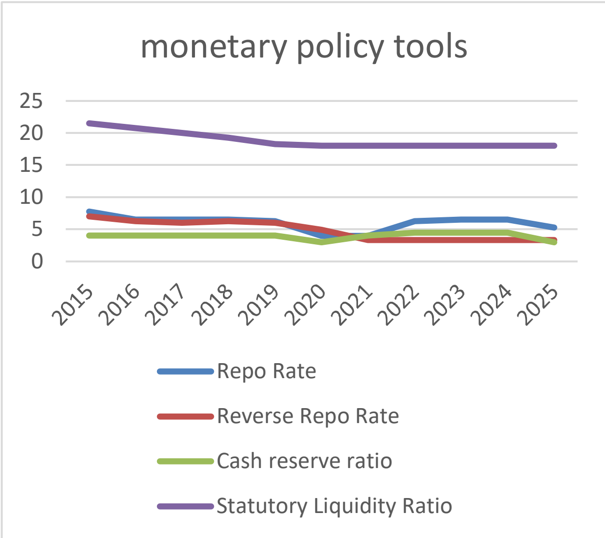
- The study primarily relies on secondary data from RBI publications, annual bank reports, and other official sources, which may limit the accuracy of findings.
- External factors such as global economic conditions, fiscal policies, and political developments may influence bank performance but are beyond the scope of this study.

VIII. REVIEW OF LITERATURE

Dr. C. Vinotha, Nithesh Kumar S and Dhanush Subhash (2025)1 in their study "Impact of Monetary Policy on the Performance in the Banking Sector". examines how RBI tools like the Repo Rate, Reverse Repo Rate, CRR, and SLR influence banking indicators such as liquidity, credit availability, and profitability. The authors found that while lower repo rates encourage credit expansion by reducing the cost of funds, higher policy rates and reserve requirements inevitably tighten liquidity and compress profits. Crucially, the research identifies Net Interest Margin (NIM) as the primary statistically significant predictor of a bank's Return on Equity (ROE), noting that policy variables often appear indeterminate in models due to multicollinearity. Ultimately, the study concludes that the effectiveness of monetary policy is heavily dependent on bank-specific factors such as asset quality and cost structures and the efficiency of the transmission mechanism through which the RBI's decisions reach the broader economy.

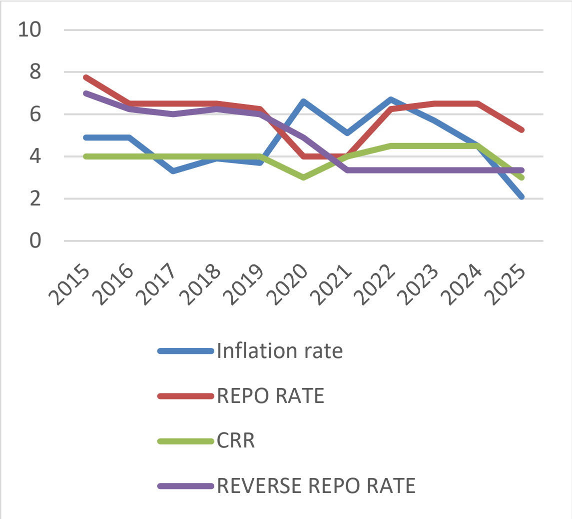
IX. ANALYSIS AND INTERPRETATION

Monetary policy tools



Interpretation: While Analysing the Monetary Tools In 2015-19 Rates Were Lowering From 7.75 To 5.15%. Wherein During Pandemic, The Rates Were Dropped to Historic Low to Support Economy While 2022-24 The Rate Bonus Back to Reduce the Price. Currently Aiming for Growth Phase There Is Reduction in Monetary Policy. Also, With A Controlled Inflation 2%.

Inflation And Monetary Policy



Interpretation: The Graph Shows That RBI Alter Repo Rate with Change in Inflation to Maintain a Stable Economy. While Inflation Is High the Repo Rate Increase to Make Borrowing Costlier and Reduce Excess Liquidity. When Inflation Falls, The Repo Rate Is Reduced to Encourage Borrowing, Consumption, And GDP Growth. Where Else In 2020-21 Despite of Inflation Rising Due To Supply-Side Disruptions, The RBI Adopted an Accommodative Stance by Cutting CRR To 3% And Lowering the Reverse Repo Rate to Inject Liquidity into The Banking System to Control Inflation and Absorb Excess Liquidity. After the pandemic RBI Sharply Increased the Repo Rate To 6.50% And Raised CRR To 4.50%. Current Phase (2025), Inflation Has Fallen to Very Low Levels.

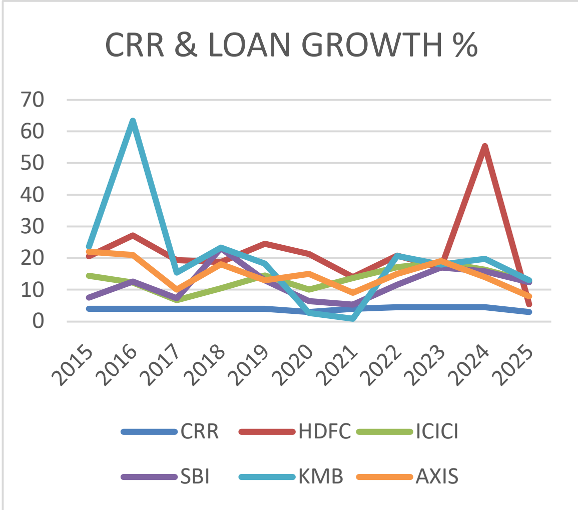
Commercial banks

Commercial banks are the most common type of financial institution that people interact with daily.

Commercial banks serve as the vital link in the monetary policy transmission mechanism, acting as the intermediaries that translate the Reserve Bank of India's (RBI) high-level policy signals into real-world economic conditions.

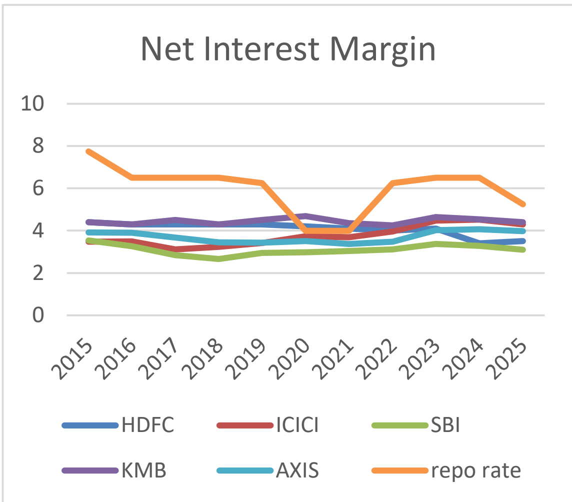
For the study we have taken top 5 commercial banks HDFC, ICICI, SBI, KMB, AXIS Banks.

Lending Behaviour



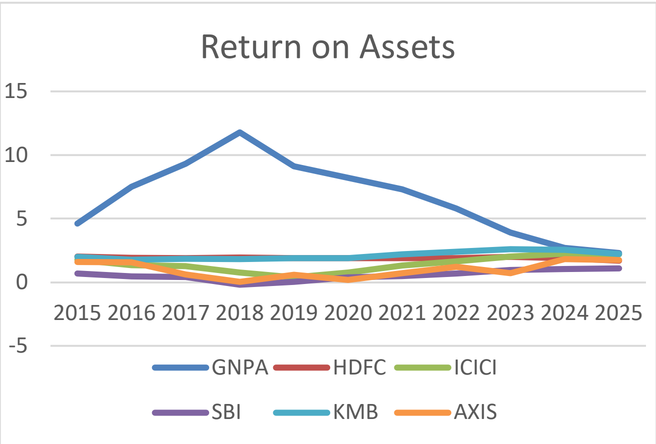
Interpretation: The relationship between the Cash Reserve Ratio (CRR) and bank loan growth from 2015-25 demonstrates the RBI's role as a "liquidity regulator". During the period 2015-19 banks maintained consistent, double-digit growth, but during pandemic forced a sharp CRR cut to 3.00% to prevent a liquidity freeze. And gives banks to lending more cash. After the pandemic RBI maintain a stable rate of 4 to 3%. The massive 55.4% jump for HDFC in 2024 is a structural anomaly caused by its merger rather than regulatory easing, whereas the late 2025 cuts back to 3.00% indicate a strategic shift to combat a liquidity deficit, lowering the cost of funds to stimulate the economy heading into 2026. Ultimately, while private banks like Kotak and Axis show higher sensitivity to these shifts with more volatile growth percentages, the state-owned SBI displays a more cushioned response, reflecting its massive scale and different risk appetite.

Net Interest Margin



Interpretation: while analysing the NIM of the commercial bank HDFC and Kotak Mahindra bank have maintained the highest margin in the group between 4.0 and 4.7%. ICICI bank shows the most structural improvement from 3.48 to 4.53%. This upward indicates a successful pivot toward higher yield retail loans and better risk pricing. Axis Bank has maintained a relatively consistent performance, generally staying within the 3.4% to 4.0% range. While it faced a slight dip between 2018 and 2021, it showed a strong recovery toward the end of the period, closing 2025 at 3.98%. As the sole public sector bank in this list, SBI consistently reports the lowest NIM, fluctuating between 2.67% and 3.54%. This lower margin is typical for large PSU banks that manage massive volumes of high-quality corporate loans and government business, which generally offer lower yields.

Return on Assets (ROA)



Interpretation: HDFC and Kotak Mahindra Bank have remained the most consistent over the decade. While the rest of the industry saw GNPA double or triple, these two never allowed their GNPA to cross the 2.5% mark, highlighting superior underwriting. ICICI and Axis were heavily hit by corporate legacy bad loans around 2016–2018. ICICI's GNPA peaked near 10%. However, their aggressive cleanup and shift toward "Retail" lending have brought them nearly on par with HDFC today. As the largest PSB, SBI bore the brunt of national-level stressed assets. Its fall from 11% GNPA to 2.3% is the most significant cleanup in Indian history, though it still carries a slightly higher ratio than private peers due to its massive rural and SME exposure.

FINDINGS

- Repo rate as the primary tool use by RBI effectively help to balance inflation and economy growth. Rate cuts and hikes help to control the credit creation and price.
- Strong liquidity support during pandemic by sharply reducing the rates and preventing from liquidity crisis, ensured banking system stability, and supported economic survival despite supply-side inflation.
- While CRR had direct influence on bank credit growth CRR reductions accelerated lending by lowering banks cost of funds, while CRR hikes during inflationary periods restrained credit expansion, confirming CRR's role as a key liquidity regulator.
- In 2022-24 the RBI's contractionary policy raising the repo rate and CRR successfully absorbed excess liquidity, stabilized the rupee, and brought inflation back within manageable levels.
- Private Banks Outperform Public Banks in Profitability and Efficiency
Private sector banks consistently reported higher Net Interest Margins and stronger asset quality than public sector banks. SBI, despite major improvements in asset quality, continued to show lower margins due to its scale, social banking role, and lower-yield loan portfolio.
- Shift toward lending banks that transitioned toward retail-focused lending demonstrated better profitability, lower NPAs and greater resilience to monetary policy changes.

SUGGESTION:

The RBI should continue using a data-driven and flexible monetary policy framework to balance inflation control with economic growth, adjusting repo rates proactively in response to domestic and global economic conditions.

- Given CRR's strong influence on bank credit growth, the RBI should implement gradual and well-timed CRR adjustments to regulate liquidity without causing sudden disruptions to bank lending.
- During accommodative phases, policy measures should ensure that increased liquidity flows into productive sectors such as MSMEs, housing,

infrastructure, and manufacturing to support sustainable long-term growth.

- Public sector banks should be strengthened through operational reforms, improved risk pricing, and greater use of technology to enhance profitability while continuing their developmental role.
- Banks should be encouraged to expand retail lending portfolios due to their higher stability and profitability, while maintaining strict credit appraisal and monitoring systems to prevent future asset quality deterioration.

CONCLUSION:

This study analysed the impact of RBI's monetary policy on the performance of commercial banks in India from 2015 to 2025. The findings show that the RBI effectively used policy instruments such as the repo rate and CRR to manage inflation, regulate liquidity, and support economic growth across different economic phases.

Accommodative policies during the pandemic ensured liquidity and financial stability, while contractionary measures during the post-COVID inflationary period successfully controlled rising prices and stabilized the economy. The study also confirms that CRR changes have a significant influence on bank credit growth, highlighting RBI's role as a liquidity regulator.

Private sector banks demonstrated higher profitability, stronger Net Interest Margins, and better asset quality compared to public sector banks. Overall, the study concludes that RBI's monetary policy has played a crucial role in maintaining banking sector stability and supporting sustainable economic growth in India.

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