

RBI MONETARY POLICY AND BANK PROFITABILITY IN INDIA

THE ROLE OF REPO RATE, CRR, AND SLR

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Abstract : This paper examines the impact of RBI monetary policy on bank profitability in India, with special focus on the repo rate, cash reserve ratio (CRR), and statutory liquidity ratio (SLR) in the post-COVID period. The analysis draws on the Reserve Bank of India's Report on Trend and Progress of Banking in India 2023–24, the RBI Annual Report 2023–24, the RBI historical record of CRR and SLR changes, the Government of India's Economic Survey 2023–24, and published studies on monetary-policy transmission in India. The evidence shows that the RBI's pandemic response included a 115 basis point cut in the repo rate during March–May 2020, a temporary CRR reduction to 3 percent, major liquidity support, and SLR-related flexibility for bank investment management. Post-COVID banking indicators show stronger profitability, lower GNPA ratios, high capital adequacy, and robust credit-led balance-sheet growth. The paper concludes that repo-rate changes had the strongest direct effect on profitability, CRR acted as a liquidity and cost-of-funds support tool, and SLR-related flexibility supported profitability indirectly through investment-book stability and smoother treasury management.

IndexTerms - RBI monetary policy, repo rate, CRR, SLR, bank profitability, India, post-COVID.

I. INTRODUCTION

Monetary policy affects bank profitability through the cost of funds, the pricing of loans and deposits, treasury valuation, liquidity conditions, and the pace of credit creation. In India's bank-dominated financial system, these channels are especially important because commercial banks remain the primary transmission route for policy actions into the wider economy. The repo rate functions as the main policy signal, while CRR and SLR influence the quantity and composition of deployable resources available to banks (Mohan, 2008; Ojha, n.d.).

The post-COVID period provides an especially useful setting for examining these linkages. According to Mathew (2022), the RBI reduced the repo rate by 115 basis points during March–May 2020 and infused potential liquidity of around Rs. 17.2 trillion between February 2020 and end-September 2021. The same study found fast and near-complete transmission from policy actions to money, bond, deposit, and credit markets, helping restore financial conditions and support durable credit offtake.

Recent official evidence suggests that these policy actions coincided with a stronger banking sector. The RBI's Report on Trend and Progress of Banking in India 2023–24 notes robust credit growth, lower bad loans, improved profitability, and strong capital buffers in scheduled commercial banks, while the Economic Survey 2023–24 notes that Indian banks' net interest margins reached a multi-year high.

II. REVIEW OF LITERATURE

Mathew's NIBM working paper on RBI's monetary and liquidity policies is the most immediately applicable published study for the post-COVID era. According to Mathew (2022), the RBI's reaction greatly improved financial circumstances following the pandemic shock and resulted in quick and complete transmission throughout the money, bond, deposit, and credit markets. The report also points out that the CRR reduction lowered banks' funding costs and promoted increased loan availability.

According to Mohan (2008), the efficacy of monetary policy is contingent upon its capacity to manage liquidity, influence the economy through market operations, reserve requirements, and policy rates. Similarly, Ojha (n.d.) defines monetary transmission as the process by which RBI actions affect economic agents by moving through money markets and financial intermediaries, with a particular emphasis on banks. Das (2016) analyses the transmission of policy rates to bank interest rates in India and investigates the pass-through of these rates to deposit and lending rates. This literature is helpful because the profitability of banks is contingent upon the speed and symmetry with which policy changes impact bank funding and asset yields, in addition to the level of rates.

III. OBJECTIVES OF THE STUDY

The research has three objectives. At the outset, it investigates the impact of RBI monetary policy on the profitability of Indian banks following the COVID-19 pandemic. Secondly, it assesses the unique impacts of the repo rate, CRR, and SLR on bank margins, liquidity, and earnings capacity. Third, it concludes that post-COVID monetary policy contributed to a durable recovery in banking profitability by utilising a combination of published research, Government of India evidence, and RBI publications.]

IV. RESEARCH METHODOLOGY

This paper uses a descriptive and analytical methodology based entirely on secondary evidence. The principal source is the RBI’s Report on Trend and Progress of Banking in India 2023–24, which provides official sector-level indicators on profitability, asset quality, capital adequacy, and credit conditions. The second major source is Mathew’s NIBM working paper on post-COVID monetary and liquidity measures, which provides detailed evidence on the policy sequence and transmission channels. The paper also uses the RBI’s historical record of bank rate, CRR, and SLR changes and the Economic Survey 2023–24 for broader macro-financial context. Supportive published discussions on monetary transmission by Mohan (2008), Ojha (n.d.), and Das (2016) are used to interpret the bank lending channel and the pass-through from policy rates to deposit and lending rates in India. The paper does not estimate a new econometric model. Instead, it studies the profitability implications of policy through price transmission from the repo rate, liquidity and cost-of-funds effects from CRR, and balance-sheet and securities-management effects from SLR-related measures.

V. ANALYSIS AND DISCUSSION

The broad interest-rate environment was influenced by the repurchase rate, which had the most significant direct impact on bank profitability. Mathew (2022) documents that the RBI decreased the repo rate by 75 basis points on March 27, 2020, and by an additional 40 basis points on May 22, 2020, resulting in a cumulative post-pandemic reduction of 115 basis points. The same study demonstrates that short-term money-market rates experienced a significant decline and frequently fluctuated near or below the reverse repo rate for the majority of the easing phase, suggesting a strong transmission to market conditions.

Liquidity release and the cost of funds were the primary factors that influenced profitability under CRR. Mathew (2022) observes that the Reserve Bank of India (RBI) reduced the cash reserve ratio (CRR) by 100 basis points to 3 percent in March 2020 as a one-time dispensation. This action resulted in the injection of Rs. 1.37 trillion of liquidity into the banking system. The study also asserts that the CRR reduction decreased the cost of funds for banks, promoted lower lending rates, and facilitated increased credit delivery. Nevertheless, the CRR effect was intended to be temporary, and the Reserve Bank of India (RBI) subsequently reinstated it in phases as conditions stabilised (Mathew, 2022; Reserve Bank of India, n.d.).

The SLR had a more indirect impact on profitability than the repo or CRR. SLR has a longstanding prudential function in requiring banks to hold a specified share of liquid assets, particularly government securities, as revealed by the RBI’s historical record. The Reserve Bank of India (RBI) also increased the HTM limit for SLR-eligible securities during the post-COVID period. This reduction in mark-to-market volatility on government securities holdings was achieved during a period of significant public borrowing and bond-market uncertainty (Mathew, 2022; Reserve Bank of India, n.d.).

The RBI’s Report on Trend and Progress of Banking in India 2023–24 states that the GNPA ratio fell to 2.7 percent at end-March 2024 and further to 2.5 percent at end-September 2024, while CRAR stood at 16.8 percent at end-September 2024. Profitability improved as well, with return on assets at 1.4 percent and return on equity at 14.6 percent in H1:2024–25. The Economic Survey 2023–24 supports this interpretation by noting that Indian banks’ net interest margins had risen to a multi-year high.

VI. RESULTS AND DISCUSSION

According to the combined evidence, the primary profitability transmission mechanism was the repo, as it had a more direct impact on lending rates, deposit rates, market yields, and credit demand than the other instruments. Relief was enhanced by CRR during the crisis phase by providing liquidity support and reducing funding pressure. SLR-related flexibility made an indirect but significant contribution by stabilising treasury books and facilitating the administration of government securities portfolios (Mathew, 2022; Mohan, 2008; Reserve Bank of India, n.d.).

VII. CONCLUSION

The evidence from RBI publications, Government of India sources, and published studies suggests that RBI monetary policy was a significant factor in bolstering bank profitability in post-COVID India. The CRR served as a liquidity and cost-of-funds support instrument, while repo-rate changes had the most significant direct impact. SLR-related flexibility indirectly supported profitability through treasury management and portfolio stability. The conclusion that these measures contributed to a durable recovery in profitability and resilience in Indian banking is supported by the official post-COVID outcomes of lower GNPA ratios, strong CRAR, improved RoA and RoE, and robust credit-led growth.

Table 1: Key post-COVID banking metrics from RBI publications

Metric	Value	Period
Return on Assets (RoA)	1.4%	H1:2024–25
Return on Equity (RoE)	14.6%	H1:2024–25
GNPA ratio	2.7%	End-March 2024
GNPA ratio	2.5%	End-September 2024
CRAR	16.8%	End-September 2024
Credit growth	Robust, credit-led expansion	2023–24

Table 2: Major post-COVID RBI policy measures and profitability channels

Policy measure	Action	Main profitability channel
Repo rate	115 bps cut during March–May 2020	Lower funding costs, easier credit conditions, rate transmission
CRR	Cut by 100 bps to 3%	Greater deployable funds, lower funding friction
SLR/HTM flexibility	Higher HTM limit for SLR securities	Lower mark-to-market volatility, smoother portfolio management
Liquidity support	Potential liquidity infusion of Rs. 17.2 trillion	Easier financial conditions, stronger transmission, better credit support

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