प्रेस प्रकाशनी PRESS RELEASE

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RBI Working Paper* Series No. 1/2017

How Asset Prices Interact with Bank Credit and Monetary Policy?

By Bhupal Singh and Avadhoot R. Nadkarni

The Reserve Bank of India placed on its website today a Working Paper titled "How Asset Prices interact with Bank Credit and Monetary Policy? Evidence from Emerging Market and Developing Economies". The paper is written by Bhupal Singh and Avadhoot R. Nadkarni under the Reserve Bank of India Working Paper Series.

The central hypothesis examined in this paper is whether credit shocks are more dominant in affecting asset prices *vis-a-vis* monetary policy shocks. The paper examines interaction of equity and house prices with macroeconomic factors using a panel VAR framework in respect of 22 large Emerging Market and Developing Economies covering the period *1995:01* to *2014:04.* Estimated models reveal dominance of monetary policy shock in causing fluctuations in stock prices, while bank credit shock plays greater role in driving house prices. Second, credit shock has sizeable and persistent impact on house prices in contrast to insignificant effect on stock prices. Third, a contractionary monetary policy shock causes decline in both real stock and house prices but the effect is relatively sizeable and persistent on equity prices as policy tightening could turn leverage costlier.

* The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.

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