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**IMPACT OF COMMERCIAL BANK AND OTHER LENDING ON
INFLATION IN INDIA: AN EMPIRICAL STUDY THROUGH
FINANCIAL CONDITION INDEX**

Abstract:

In order to explore how lending volume impact real estate price and thereby inflation, the author has incorporated commercial banks and other lending along with two monetary variables, short term rate and official exchange rate, in constructing a Financial Condition Index (FCI) for India. It is based on the assumption that lending volume impact real estate (housing) prices, which in turn affects the aggregate demand (AD) side of the economy. A higher real estate (housing) price in turn may build inflationary pressure in the economy. A Financial Condition Index that incorporates commercial bank and other lending as a variable should show a significant correlation with the inflation rate (as measured by consumer price index) in the economy. The data collected for a period of 10 years and their subsequent econometric analysis, however in case of India, shows no such strong correlation. This opens a possibility of lending volume and real state price relationship undergoing significant changes in India in recent past. It may also be worth exploring how much of an overall impact one may observe in Indian economy, between the housing (real estate) price and the aggregate demand side of the economy.

Keywords:

Inflation, Housing Price, Commercial Bank and Other lending, Financial Condition Index

JEL Classification: E31