

UNIVERSITY OF ZURICH

**Analyzing the Impact of a
Positive Bank Liquidity Shock:
Evidence from an Emerging
Market**

by

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A thesis submitted in partial fulfillment for the
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Abstract

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In this thesis we analyze the impact of a positive bank liquidity shock - induced by the act of demonetization in India - on the bank lending behavior. We ascertain an enhancement in lending for the branches subject to significant upsurge in deposit levels, although disrupted by the negative shocks demonetization induced in the real economy sector, which in turn affected hugely the loan demand for some particular loan products. Furthermore, we find both an increase in the maturity and a decrease in the interest rates charged on the new loans issued from the treated branches, in an attempt to attract loan demand and thus employ their abundant liquidity conditions for profit maximization.