

Bank lending channel

This channel is particularly important in the countries where banks play a significant role in the financial system. As long as there is no perfect substitutability of economic entities' bank deposits with other sources of funds, the bank lending channel of monetary transmission will operate as follows:

- Expansionary monetary policy will lead to an increase in bank reserves and bank deposits which in its turn results in increased volume of bank loans and indebtedness, as well as a rise in investments and GDP;
- If the monetary policy is restrictive, bank loans and indebtedness will decline, with a reverse effect on investments and GDP.

In our economic conditions, this is a highly significant channel.

The above monetary policy transmission channel can be illustrated as follows:

Broad Credit Channel



