प्रेस प्रकाशनी PRESS RELEASE

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August 12, 2015

RBI releases RBI Occasional Papers Vol. 34 - No. 1 & 2: 2013

The Reserve Bank of India today released Volume 34 (No. 1 & 2) of its Occasional Papers. RBI Occasional Papers is a research journal of the Reserve Bank and contains contributions of its staff and reflects the views of the authors. This issue contains five articles, two special notes and two book reviews.

Cyclicality of Social Sector Expenditures: Evidence from Indian States

The paper titled "*Cyclicality of Social Sector Expenditures: Evidence from Indian States*" by Balbir Kaur, Sangita Misra and Anoop. K. Suresh attempts to study the cyclical behavior of social sector spending including education and health for the 17 non-special category states covering the period 2000-01 to 2012-13. It finds that while overall social spending is acyclical in India at the state level, education spending is pro-cyclical, with the pro-cyclicality being more pronounced during upturns than downturns. Further, the pro-cyclicality is more significant for bigger states (in terms of income) than low income states. This possibly suggests a combined impact of political economy factors, pro-cyclical state revenues and the role of discretionary transfers. The paper also finds the impact of fiscal deficit on social sector expenditures to be negative, providing support to the fiscal voracity effect hypothesis. In order to ensure that the low growth does not hamper human capital formation, states are expected to increase their social sector spending during difficult times. This would, however, require building up of adequate fiscal space during good times to enable them to spend more when required on human capital investments, which is the key to achievement of long-term inclusive and sustainable development.

International Financial Integration and Growth of Asian Economies

The paper on "*International Financial Integration and Growth of Asian Economies*" by Amarendra Acharya and Anupam Prakash examines the relationship between international financial integration (opening the economy both outward and inward) and economic growth in 11 Asian economies during the period of 1991-2010. The approaches used in the paper to deal with the issues are both analytical and empirical. The empirical analysis suggests that the impact of international financial integration on growth is mixed. However, disaggregated analysis shows that total capital inflow is found to be enhancing growth through two channels: one by adding to investment, and second by enhancing productivity. Further, both the direct investment and portfolio flows are found to have positive effects on growth.

Total Factor Productivity of Indian Banking Sector - Impact of Information Technology

In his paper titled, "*Total Factor Productivity of Indian Banking Sector - Impact of Information Technology*", Sujeesh Kumar S. examines the impact of information technology on productivity of banking sector. The total factor productivity is worked out for the Indian banking sector covering public, private and foreign banks operating in India by using data envelopment analysis based non–parametric Malmquist productivity index approach. It also attempts to find out the impact of information technology on productivity of Indian banking sector using a multiple regression model. The results of the study show that the Indian banking industry experienced a growth in productivity during the period 2008 to 2010. The succeeding years showed a diminished growth in productivity. Further, the multiple regression model suggests that the increased electronic transactions in the banking channel have resulted in increase in productivity. Additionally, the intermediation cost - a proxy for technology investment - is also significant for the productivity of banking sector.

Determinants of Corporate Investments in India: An Empirical Analysis on Firm Heterogeneity

In the paper titled "*Determinants of Corporate Investments in India: An Empirical Analysis on Firm Heterogeneity*", M. Sreeramulu, A. Ramanathan and K. Narayanan investigate whether there exists heterogeneity across size-classes and industry groups in the link between financial variables (*viz*., internal funds, bank credit, equity capital) and investment, using RBI's panel of manufacturing firms in India over the period 1999-2000 to 2010-11. Their results confirm heterogeneity across size-classes as well as industry-groups. It is found that large firms and industry groups, *viz*., textiles, metals relatively depend more on bank credit for financing investments. Industry groups which are mostly involved in producing luxury goods are less dependent on internal funds. On the contrary, large firms' investment decisions are highly motivated by internal funds. Equity capital turns out to be insignificant for small firms and confirm the information problems faced by these firms in raising funds from capital markets.

What Explains Credit Inequality Across Indian States? An Empirical Analysis

In the paper titled "*What Explains Credit Inequality Across Indian States? An Empirical Analysis*", Snehal Herwadkar and Saurabh Ghosh attempt to evaluate whether credit inequality across Indian states can be explained by state specific factors representing credit demand and supply and infrastructure facilities. Analysing data for 22 Indian states for the period 2004-2012, the paper concludes that differences in credit are explained by factors such as financial deepening and infrastructure development. This indicates that states, which garner higher deposits, have better banking network and score high on infrastructure availability attract more credit as compared to other states. From the policy perspective, the paper emphasises the role of financial inclusion and suggests that states can also contribute towards this goal by providing better infrastructure that would enhance the investment climate of the state.

Special Note

In a note on “*SME Financing through IPOs - An Overview*”, R. K. Jain, Avdhesh Kumar Shukla and Kaushiki Singh discuss the experience of capital financing of SMEs through IPOs. They find that not only the experience of financing of SMEs through IPOs has been encouraging, secondary market performance of IPOs by SMEs has also been quite good. However, it seems that for investors, it is risky as there is not enough liquidity and the turnover is low. Recognising the issues relating to this segment of market, the paper emphasises the need for more transparency and increased institutional participation in the companies listed on SME platforms. It also suggests that stock exchanges should also provide sustained handholding to the managements of these companies.

In another note on “*Beautiful Minds: The Nobel Memorial Prize in Economics*”, Saibal Ghosh lists the Nobel laureates in Economics and highlights certain interesting facts that could act as a guide for conjecturing potential winners. The analysis suggests that the list of awardees is skewed towards universities located in the US. Further, the awardees had received doctoral training in one of the 15 select universities with a distinguished track record, out of which, 8 are in the US. Finally, without loss of generality, game theory and microeconomics appears to dominate the awardees list, although of late, macroeconomics and empirical applications have been gaining importance.

Book Review

Devasmita Jena reviews a book titled “*Global Financial Contagion: Building a Resilient World Economy after the Subprime Crisis*” authored by Shalendra D. Sharma (Cambridge University Press: 2014). In the book, the author provides an interesting discussion on economic and political roots of the global financial crisis. The book also highlights that the institutional weakness of the G-20 has prevented it from playing a truly decisive role in reshaping the world economy and has been unable to make headway in addressing core issues of global imbalances.

Sakshi Parihar reviews a book “*In Bed with Wall Street, The conspiracy crippling our global economy*” by Larry Doyle (Palgrave Macmillan, New York, 2014). This book provides interesting insights regarding the lack of regulation and oversight facing Wall Street in the US which ultimately led to meltdown in financial markets in 2008. In this book, the author exposes the corrupt culture of Wall Street and highlights as to how the regulators (earlier or future employees of the regulated entities) acted in the interests of the industry rather than protecting investors and markets.

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