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RBI releases Summer 2011 Issue of its Occasional Papers

The Reserve Bank of India, today released the [Summer 2011](#) issue of its Occasional Papers. Occasional Papers, a research journal of the Reserve Bank, contains contributions of its staff and reflects the views of the authors. This issue is woven around some important themes which have been at the forefront of policy discussions. The issue contains articles, special note and book reviews.

Comparing the Technical Efficiency of Indian Banks Operating Abroad and Foreign Banks Operating in India: A Stochastic Output Distance Function Approach

The paper "*Comparing the Technical Efficiency of Indian Banks Operating Abroad and Foreign Banks Operating in India: A Stochastic Output Distance Function Approach*" by Vivek Kumar, Vishal Maurya and Sujeesh Kumar S. attempts to compare the technical efficiency of Indian Banks operating abroad and foreign banks operating in India and also examines the effect of openness of the country and ownership pattern of the banks on their technical efficiency. Besides, the paper also examines whether the banks operating in developed and developing countries have different level of technical efficiency. The results reveal that Indian Banks operating abroad are more efficient than the foreign banks operating in India and banks operating in developed countries are found to be more efficient than the banks operating in developing countries. The effect of openness of the country as well as ownership pattern of the Indian banks operating outside India has no significant effect on their technical efficiency.

Causal Relationship between Saving, Investment and Economic Growth for India - What does the Relation Imply?

The paper titled "*Causal Relationship between Saving, Investment and Economic Growth for India- What does the Relation Imply?*" by Ramesh Jangili investigates the relationship between saving, investment and economic growth for India over the period 1950-51 to 2007-08 both aggregate level and sectoral level. It is empirically evident that, there is no reciprocal causality relationship between these variables in India. The direction of causality relationship is from saving and investment to economic growth collectively as well as individually and there is no causality relationship from economic growth to saving and (or) investment.

The empirical results also suggest that there exists reciprocal causality relationship between saving and investment of the private sector and economic growth. This reciprocal causality relationship prevailed from the household sector,

where saving and investment led growth and growth driven saving and investment was observed. The paper finds evidence that private corporate sector saving does not lead to economic growth, however, saving and investment of the sector collectively lead to economic growth and vice-versa. The paper concludes that (i) even though the Indian economy is opened to foreign investments, growth is still driven by the domestic saving and (ii) local firms may not be absorbing the technology which comes through the foreign investment in order to undertake more profitable innovation projects.

Are Saving and Investment Cointegrated? A Cross Country Analysis

In the paper titled “*Are Saving and Investment Cointegrated? A Cross Country Analysis*”, Sanjib Bordoloi and Joice John explored the relationship between saving and investment in three diverse economies, viz., US, UK and China and compared it with India. Empirically it has been found that saving and investment are cointegrated for all the four selected countries, viz., US, UK, China and India. The significant long-run coefficient of saving on investment supports that Feldstein–Horioka (FH) hypothesis holds for these economies. Empirical analysis also suggests that India depends on its own saving for most of its investment. For US, even though the saving and investment are found to be cointegrated, the long run saving coefficient is found to be lower compared to the other countries. In China, till 2003 the long term coefficient of saving on investment gradually increased. This may be attributed to the high domestic saving driven investment. From 2004 to 2008 the coefficient declined. This is in line with the fact that the China’s domestic savings grew at a faster rate than its investment growth during this period. US and UK had witnessed decline in long-run saving coefficients during the pre-crisis period, which subsequently picked up during the crisis period.

Special Note

Under the Special Note section, the paper on “*Structural Problems and Fiscal Management of States in India*” by Dirghau Keshao Raut attempts to analyse structural fiscal problems and fiscal management of the State Governments based on the long term behavior of major fiscal variables during the last five decades starting from 1960. The paper reveals that structural problems such as vertical fiscal imbalance, variation across States in imposing certain taxes and lower own non-tax revenues still exist and needs to be addressed more progressively. While fiscal management of the States was poor from the second half of 1980s up to 2003-04, fiscal reforms undertaken since 2004-05 benefitted States in managing their finances. However, the macroeconomic slowdown and the impact of pay revision on account of sixth pay commission halted the fiscal correction during 2008-09 and 2009-10 before the State budgets resumed fiscal consolidation in 2010-11. The paper also touches upon the issues with regard to revenue receipts and expenditure management of States.

Book Reviews

N.C. Pradhan reviews a book titled “*The Myth of Too Big to Fail*” authored by Imad A. Moosa and published by Palgrave Macmillan Studies in Banking and Financial Institutions, UK.

The book is divided into ten chapters and highly critical of the too-big-to-fail (TBTF) doctrine and related issues such as laissez faire finance, the trend towards massive deregulation, and status of the financial sector in the world-wide economy. It is critical of not only the practice, but also the ideas that drive the practice – some of

which are the products of academic work. Most of the discussion in this book pertains to developments in the United States, where the deposit insurance was invented and the term TBTF was coined. In order to discourage TBTF, the book prescribes that while one set of policy options is to internalise the externalities associated with bigness and complexity through curbs and incentives, the second class of proposals relates not to the size of institutions, but to the possibility of their failure. The book emphasises that a failing firm must vanish with no life support offered by the government and financed by the tax-payer's money.

Arvind K. Jha reviews a book titled "*The Rise of Indian multinationals: Perspective of Indian Outward Foreign Direct Investment*" edited by Karl P. Sauvant and Jaya Prakash Pradhan along with Ayesha Chatterjee and Brian Harley and published by Palgrave MacMillan, New York.

The book, spread over nine different chapters contributed by noted experts on the subject, provides different perspectives on the rise of Indian multinational corporations. The book is a sharp analysis of trend and issues pertaining to Indian MNEs. While discussing the rapid growth of Indian MNEs, the book provides different perspectives in terms of patterns and factors that led to their increasing presence in global economy. In one of the chapters, book attempts to explain the recent exponential surge in OFDI on three dimensions, *viz.*, the speed and direction of OFDI, the role of home country context in shaping ownership advantage and the motives behind OFDI. All the three explanations offer partial contributions to the explanation of dynamics of OFDI in recent past. Another chapter examines the direct and indirect role of government policies for the OFDI. One of the chapters attributes the success of Indian MNEs to their conglomerate structure. Besides, there are some explicit messages for Indian MNEs for strengthening their presence in global markets. Reviewer also highlights some of the missing links in the book.

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