



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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Reserve Bank of India releases its Occasional Papers

The Reserve Bank of India has today released the [Monsoon 2009 issue of the Reserve Bank of India Occasional Papers](#). Occasional Papers is a research journal of the Reserve Bank and contains contributions of its staff and reflects the views of the authors. These issues are woven around some important themes which are in the forefront of policy discussions. These issues also contain special notes and book reviews.

The first paper is titled '[Dynamics of Financial Globalisation and Growth: Some Evidence from Emerging Market Economies](#)' by Harendra Kumar Behera and Rajiv Ranjan. The paper empirically examines neoclassical prediction of the impact of financial globalisation on growth in emerging market economies (EMEs). This paper, in a unique way, examines the long-run relationship between economic growth and financial liberalisation for 27 EMEs. Unlike other studies in the literature, the paper uses recently developed panel unit root test and cointegration test to link capital account liberalisation with the level of per capita output rather than per capita output growth. The paper finds that a dynamic long-run relationship exists between economic growth and financial openness. The results remain unchanged when data for trade openness contribution to per capital GDP are included. Further, the long-run coefficient of financial openness is estimated to be significantly positive. The findings interestingly show that a positive long-run relationship exists between capital account liberalisation and growth as opposed to the findings of many earlier studies.

The second paper titled '[Estimation of Potential Output in India](#)' is by Sanjib Bordoloi, Abhiman Das and Ramesh Jangili. It reveals that the potential output refers to the highest level of output that can be sustained over the long-term. It is assumed that the existence to the limit of output is due to natural and institutional constraints. If actual GDP rises and stays above potential output, then (in the absence of wage and price controls) inflation tends to increase as demand exceeds supply. Likewise, if output is below potential level, inflation will decelerate as suppliers lower prices to fill their excess production capacity. The issue of estimating potential output is, therefore, critically important in understanding the overall inflationary dynamics in an economy.

The paper presents empirical estimates of potential output for India using several advanced econometric methods based on both monthly and quarterly data. Selection of an appropriate method is validated against the out of sample forecasts as well as from its spectral density properties. For monthly data, the estimate of the potential growth rate for the Indian economy is found to converge within the range 9.4 percent to 9.7 per cent for most of the methods. For quarterly data, these methods consistently produce potential output estimate of about 9.0 percent. The

diagnostics of the empirical methodologies suggest that unobserved component models are most efficient methods for estimation of quarterly potential output.

The paper '[Impact of Agricultural Credit on Agriculture Production: An Empirical Analysis in India](#)' by Abhiman Das, Manjusha Senapati, Joice John in the Special Notes Section suggests that the direct agriculture credit amount has a positive and statistically significant impact on agriculture output and its effect is immediate. The number of accounts of the indirect agriculture credit also has a positive and significant impact on agriculture output, but with a lag of a year. These results reveal that even though there are several gaps in the present institutional credit delivery system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending and limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors, agriculture credit plays a critical role in supporting agriculture production in India.

In the paper titled '[Micro Finance and Financial Inclusion of Women: An Evaluation](#)' Pallavi Chavan and Bhaskar Birajdar, analyse the geographical spread of micro finance institutions, access and affordability of micro finance for women borrowers and movement of women borrowers out of Self Help Groups (SHGs). The findings of this paper reflect the significantly limited scale and spread of micro finance in India. The continued dependence of women members belonging to SHGs on informal sources, as revealed from the primary data, further corroborates the point regarding the limited spread of micro finance. The relatively high rates of interest on SHG loans, which are comparable with the rates of informal sector, underline the issue of affordability of micro finance for poor borrowers. Further, an issue related to interest rates is that of dropout rate of members. The most commonly noted cause for dropouts among SHG members is the irregular repayments of loans. The members complain of inability to repay their loans on time and subsequently drop out. The paper reflects the considerable scope for micro finance to evolve as an effective and affordable means of financial inclusion for the excluded groups/regions that can help loosen the grip of informal sources of finance over them and ensure permanent inclusion of the excluded sections in the ambit of formal finance.

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