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RBI releases Winter 2009 issue of its Occasional Papers

The Reserve Bank of India today released the [Winter 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.

In this issue, the paper titled '[International Monetary Fund and Civil Society Organisations: A Dialogue](#)' by Jaya Mohanty highlights the relationship of the International Monetary Fund (IMF) and Civil Society Organisations (CSOs). The International Monetary Fund, an exclusive club of central bankers and government officials, became an object of increasing public scrutiny in the 1990s in the aftermath of the Asian crisis. The recent economic crisis has reiterated its role in the global economic scenario with an almost threefold increase of its resources. Its policies too seem to have become tailored to meet the economic requirements of the countries seeking recourse. An effort has been made for the first time by the IMF to seek the views of CSOs on governance issues. The process has been termed the 'Fourth Pillar', with inputs to the other three pillars being (i) governance of IMF submitted by the IEO in May 2008, (ii) report of the working group on IMF corporate governance, and (iii) the committee of eminent persons on IMF governance reform. But the very nature of the two entities sets the perimeter of their engagement. Notwithstanding this limitation, an ongoing engagement is essential to facilitate the transition of world economies into a new and higher growth path.

The paper on '[External Sector Openness and Purchasing Power Parity in India: An Annotation](#)' is by Sunil Kumar and S. M. Lokare. Exchange rate models in literature assume that purchasing power parity (PPP) holds in open market economies. PPP condition not only helps understand the nature of nominal and real shocks in the exchange rate models but also helps policy makers and researchers to compute real exchange rate (RER) misalignment. The main objective of this paper is to examine the validity of PPP condition in the case of India during pre and post reform periods using monthly data from 1970 to 2009. The results show that real exchange rate (RER) series which remain non-stationary in the pre-reform period turn out to be stationary during the post reform period reinforcing the validity of PPP in the post reform period, albeit, over the long run. This lends credence to the fundamental principle that the chances of holding PPP condition improve in an economy with greater external sector openness and integration and a market determined exchange rate.

The paper '[Foreign Portfolio Flows and their Impact on Financial Markets in India](#)' by Saurabh Ghosh and Snehal Herwadkar in the Special Notes Section analyses the effect of portfolio flows on various segments of the Indian financial markets over the decade preceding global financial crisis. The results of the tests suggest that portfolio flows cause changes in equity prices as well as exchange rates. In the short run, a positive shock to net FII flow generally result in an increase in equity prices, exchange rate (INR/USD) appreciation and a decline in interest rates. The magnitude of these responses dampens over time and converges towards an equilibrium path. The magnitude and direction of long term coefficients generally support the short run findings. The negative and significant error correction term, on the other hand, indicates movements towards long run equilibrium and the resilience of Indian financial markets.

The second paper in this section titled '[Trade Pattern in SAARC Countries: Emerging Trends and Issues](#)' by Rajeev Jain and J. B. Singh focusses on the analysis of South Asia Association for Regional Co-operation (SAARC) trade. The paper attempts to analyse the merchandise trade performance of the SAARC region and also the trend in intra-SAARC trade. A brief analysis of trade baskets of SAARC countries (India, Pakistan, Bangladesh and Sri Lanka), shows that export baskets of major SAARC countries are significantly similar. This reflects that they may be competing with one another in the international market. However, export baskets are relatively more diversified for India and Pakistan. The Grubel-Lloyd index provides empirical evidence of growing intra-industry trade in SAARC countries which perhaps is an offshoot of the trade and industry reforms that have taken place in recent years. An attempt is also made to examine SAARC region's relative competitiveness by calculating the revealed comparative advantage index and comparing the structure of specialisation using relative trade comparative advantage (RTA) index. It is found that India has relative comparative advantage in a larger number of industry groups than other SAARC countries and that all major SAARC countries have Relative Trade Advantage in the textile sector. The paper underlines that despite significant business cycle convergence in major SAARC countries, trade integration is growing only at a slow pace.