



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

ई-मेल/email : helpdoc@rbi.org.in



संचार विभाग, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001

Department of Communication, Central Office, Shahid Bhagat Singh Marg, Fort, Mumbai - 400 001 फोन/Phone: 022 - 2266 0502

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Today, the Reserve Bank of India releases [Volume 44, No.2, 2023 of its Occasional Papers](#), a research journal containing contributions from its staff. This issue contains three articles and three book reviews.

Articles:

[1. Cross-border Capital Flows and Sudden Stops: Lessons from Emerging Market Economies](#)

This paper examines the evolving dynamics in cross-border capital flows, with an emphasis on the emerging market economies (EMEs) covering a period of three decades (Q1:1992-Q1:2022). The paper provides an account of the major episodes of capital flow reversals, in particular “sudden stops”, and the analysis suggests the period of the GFC to be the only major sudden stop episode for EMEs in terms of gross as well as net flows. The pandemic quarters of Q3 and Q4:2020 were sudden stop phases in terms of net capital flows. Using complementary log-log regression models, the paper highlights the role of global factors (such as global economic growth, risk, liquidity, long-term interest rates, and policy rate changes), domestic growth and nominal exchange rate dynamics as key drivers of capital flow reversal episodes in the case of EMEs. An appropriate use of capital flow management measures (CFMs) and macroprudential policy measures (MPMs), along with the strengthening of domestic macroeconomic and financial fundamentals and adequate buffers in the form of foreign exchange reserves, can help EMEs better navigate the ebbs and surges in capital flows while preserving macroeconomic and financial stability.

[2. Procyclicality in Total Factor Productivity Measurement: An Analysis of the India KLEMS Data](#)

This paper examines the procyclicality in Total Factor Productivity (TFP) in the Indian economy from 1981-82 to 2019-2020 based on the India-KLEMS 2022 database. The paper improves upon the traditional growth accounting methodology for TFP estimation and constructs new TFP indices, adjusting for the variable capital utilisation rate and labour efforts using a partial equilibrium model.

The key findings are as follows:

- The adjusted TFP growth was found to be less procyclical. The correlation between TFP growth and Gross Value Added (GVA) growth reduced from 0.88 for the unadjusted series to 0.75 for the adjusted TFP series for the economy as a whole.
- The procyclical deviations were more in the labour-intensive manufacturing sectors, such as textiles, and services sectors, such as construction, hotels, business services, education and health care.

- Capital accumulation has been a major driver for India's economic growth and its role has increased over time. The contribution of TFP growth, which fell during the 2000s, showed an improvement during the 2010s. A further sustained increase in productivity growth would be necessary to boost India's potential growth and medium-term growth prospects.

3. Macroprudential Policy and Tail Effects on Growth in India

This paper analyses the effects of macroprudential policy actions on credit and output by looking at their tail effects in a growth-at-risk framework. The findings suggest that macroprudential policy measures moderate high credit growth, thereby preserving financial stability. These policy measures improve output over the medium term when the actual output is below its potential level; however, the effect of these policy measures on output is statistically insignificant when the output is well above its potential. The paper observes statistically significant favorable effects of normalisation of macroprudential policies especially on the services sector when it is performing below its potential. A tighter policy stance ensures financial stability by moderating credit growth, and facilitating higher output over the medium term. Overall, the benefits of the macroprudential policy outweigh its costs. The macroprudential policy effectively improves growth over the medium term, with the costs of policy implementation being not very significant.

Book Reviews:

This issue of the RBI Occasional Papers also contains three book reviews:

1. Sambhavi Dhingra reviews the book "[How Economics Can Save the World: Simple Ideas to Solve Our Biggest Problems](#)" written by Erik Angner. The book offers real, actionable, and evidence-based solutions to the biggest issues that haunt humankind. These questions range from how to solve the climate crisis, to how to be good parents, as well as how to be happy. In doing so, Angner's book underscores the importance of acknowledging the relevance of economics in areas where it may not be immediately apparent.
2. Prateexit Joshi reviews the book "[Money in One Lesson: How it Works and Why](#)" written by Gavin Jackson. The book delves into the intricacies of the concept of money in human society and how it impacts our day-to-day lives. Delving into the global historical developments that shaped up modern-day money and touching upon the essential pillars of macroeconomics, the book provides valuable insights for its readers through the usage of vivid examples. The book also sheds light on the role of governments and central banks in shaping the idea of money and how their actions have an effect on the economy as well as human lives.
3. Paras reviews the book "[Handbook of Real Estate and Macroeconomics](#)" edited by Charles Ka Yui Leung. The papers in the book evaluate the interaction of real estate and macroeconomics. It contains multiple themes varying from house price dynamics to financial crisis, structural changes to non-residential real estate and others. The lessons on dynamics of real estate in an economic system have applications for households, producers, and policymakers in their decision-making processes.