



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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The Reserve Bank of India today released [Volume 35 & 36 \(combined for 2014 and 2015\) 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 four articles, two special notes and a book review.

Articles*i) [Assessing the Reserve Adequacy in India](#)*

The paper titled “*Assessing the Reserve Adequacy in India*” by Rajib Das and Siddhartha Nath examines the adequacy of India’s foreign exchange reserves by using various approaches. It finds that India’s foreign exchange reserves are higher than those of many countries with similar external sector characteristics like current account deficits and high foreign portfolio investment inflows, and also in relation to several ‘rules of the thumb’ for reserve adequacy. The authors observe that India’s reserve holdings are adequate and largely explained by several precautionary motives of reserves’ accumulation in light of its growing external sector openness and the associated risks. Econometric analysis suggests that India’s actual reserve levels are within the adequacy band around the predictions from an estimated reserve demand equation.

ii) [Inflation Expectation and Consumer Spending in India: Evidence from Consumer Confidence Survey](#)

The paper on “*Inflation Expectation and Consumer Spending in India: Evidence from Consumer Confidence Survey*” by Suman Yadav and Ravi Shankar examines the empirical relationship between inflation expectations and consumers’ spending in India using micro-data from the Reserve Bank of India’s quarterly Consumer Confidence Survey of households captured in various rounds from March 2011 to September 2014. The paper finds that higher inflation expectations lead to higher current household spending and also to planning for reduced spending in the future. These findings are found to be stable over time and across various demographic and individual attributes.

iii) [Government Cash Operations: Volatility and Management in India](#)

In the paper titled “*Government Cash Operations: Volatility and Management in India*”, Jai Chander outlines a framework for cash management of Government of India and assesses the effectiveness of debt management strategy of the Government of India in managing volatility in its cash balances. The paper concludes that volatility in cash balances was largely driven by revenues and borrowings from non-market sources, while expenditure was found to reduce the volatility. Empirical evidence indicates that there have been effective modulations in the debt management strategy which helped reducing volatility in cash balances.

iv) [Structural Fiscal Balance: An Empirical Investigation for India](#)

In the paper titled “*Structural Fiscal Balance: An Empirical Investigation for India*” Sangita Misra and Pushpa Trivedi analyse fiscal balance for India in the context of business cycles and quantifies the structural component of the fiscal balance using econometric approaches, also followed by the OECD and the ECB for cross-country estimates. The study finds that the automatic impact of output cycles and tax base cycles on fiscal policy could be to the extent of 0.6-0.7 per cent and 0.2-0.4 per cent of GDP, respectively depending on output gap estimates using a range of empirically estimated elasticities and taking into account the one-offs. Hence, structural fiscal balances for India, on an average, could be at least about 0.8 percentage points more or less than what is actually observed.

Special Notes

In a note titled “[Choice of Private Placement as an Instrument for Raising Debt Resources: Evidence from Indian Firms](#)”, Avdhesh Kumar Shukla and A. Edwin Prabhu empirically test the importance of firm-level and macroeconomic conditions on a firm’s choice for private placement for the NIFTY 500 non-financial firms covering the period 2003-04 to 2014-15. Analysis based on financial attributes of privately placed companies indicates that these instruments are issued by the companies with relatively larger assets sizes, lower growth potential and higher likelihood of financial distress. The study finds strong evidence of macroeconomic conditions affecting a firm’s choice for private placement.

In another note on “[Bank Credit to Small Borrowers: An Analysis based on Supply and Demand Side Indicators](#)”, Pallavi Chavan analyses the coverage of small borrowers by Indian banks using data on credit portfolios of banks (supply side) and debt portfolios of borrowing households (demand side). The author finds that there have been certain favourable changes with regard to the coverage of small borrowers by the banking system since 2005. The major gainers have been small women borrowers from rural areas, agricultural/rural labourers and small/marginal cultivators. However, there are signs of increasing marginalisation of small women borrowers in urban areas and of backward social groups in the allocation of bank credit during this period. Based on the findings, the author highlights the need to continue with the policy on financial inclusion for strengthening banking presence in rural areas and also to give attention to urban poor in light of the increase in urbanisation.

Book Review

Anand Shankar reviews Ben Bernanke's "[The Courage to Act: A Memoir of a Crisis and its Aftermath](#)" (W.W. Norton & Company 2015). Bernanke attempts to explain the rationale behind the bailout of many financial institutions in the US during the crisis and address the question of why Lehman could not be saved. The book has more to offer than just the narrative of the crisis and its management. It has commentary on the need for good policy communication, the contours of policy action during a crisis, human resource management, financial stability policy and its implementation, the need for a holistic approach to regulation and supervision, policy transparency, inflation targeting, unconventional monetary policy, quantitative easing and a whole host of other issues of interest to policymakers in general and to central banks in particular.

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