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RBI releases Occasional Papers

Today, the Reserve Bank of India released [Volume 42, No.1, 2021 of its Occasional Papers](#), a research journal containing contributions from its staff. This issue contains four articles and two book reviews.

Articles:

1. [Green Swans and their Economic Impact on Indian Coastal States](#)

Saurabh Ghosh, Sujata Kundu and Archana Dilip examine the impact of green swan events (climate-related risk events like cyclones, floods and droughts) on an array of macroeconomic indicators, such as output growth, agricultural productivity, inflation, tourism, fiscal parameters, and cost of borrowing. By using a difference-in-difference approach and panel data on Indian coastal states from 2011-12 and 2019-20, they find that natural disasters lower output growth, raise inflation and dampen tourist arrivals, while their impact remains mixed for most of the financial variables. Empirical results also suggest that adaptive learning helps, as eastern coastal states appear to be better prepared *vis-à-vis* their western counterparts, given their long history of dealing with fierce natural disasters. The study highlights that the green swan events could be an important source of risk to price stability, growth and financial stability, and thus, suggests strengthening of disaster management capabilities, incentivising green projects and green finance, and undertaking scenario analyses for effective policy preparedness.

2. [Alternative Inflation Forecasting Models for India –What Performs Better in Practice?](#)

In this paper, Jibin Jose, Himani Shekhar, Sujata Kundu, Vimal Kishore and Binod B. Bhoi develop a suite of inflation forecasting models – autoregressive integrated moving average (ARIMA), structural vector autoregression (SVAR) and Phillips Curve (PC) models – at the aggregate and disaggregated levels on quarterly consumer price index (CPI) data for India from 1996-97:Q1 to 2019-20:Q4. Based on out of sample forecast performance, the authors find that seasonal ARIMA models outperform others for one-quarter ahead horizon. PC based models, however, outperform others in four quarters ahead horizon at disaggregated levels, validating the utility of disaggregated level analysis of inflation in India. While SVAR models do not score well on forecasting performance, they provide useful insights for evaluating the impact of different shocks on inflation.

3. [Monetary Policy Transmission Through the Lens of Monetary Conditions Index \(MCI\) for India](#)

Manu Sharma, Arvind Kumar Jha, Anoop K. Suresh and Bikash Maji attempt to broaden the conventional concept of Monetary Conditions Index (MCI) by including bank credit and stock prices, apart from the usual short-term interest rate and exchange rate, to approximate all four major channels of monetary policy transmission. Their MCI tends to broadly capture the expansionary/contractionary phases of monetary policy in India during the past two decades, including episodes of crisis. The constructed MCI works not only as a suitable coincident indicator for assessing the stance of monetary policy but also as a leading indicator for forecasting inflation.

4. [OTC Derivatives in Emerging Market and Developing Economies: The Role of Global Liquidity and Regulatory Reforms](#)

Rajib Das, Narayan Chandra Pradhan and Rajat Malik examine the impact of the post-Global Financial Crisis liquidity conditions and the implementation of financial sector regulatory reforms on the 'over-the-counter' (OTC) derivatives on market activity in select emerging market and developing economies (EMDEs). They find that the liquidity glut, especially of USD liquidity, provided an impetus to trading volumes in the OTC derivatives markets of the EMDEs; regulatory reforms had a generally favourable impact on the OTC trading volumes, particularly on the OTC foreign exchange derivatives contracts; though some of the individual elements of reforms increased compliance burden.

Book Reviews:

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

1. Madhuchannda Sahoo reviews the book "[The Deficit Myth: Modern Monetary Theory and How to Build a Better Economy](#)" written by Stephanie Kelton. The book is one of the most thought provoking books in economics of our times and raises some of the most fundamental contemporary issues in public finance and monetary economics. It aims to bust six myths that are deeply rooted under the shelter of conventional economic theories. The book provides an intellectual challenge to the established norms by recommending the framework of Modern Monetary Theory (MMT) for guiding the conduct of macro policies, to prioritise real economy issues while safeguarding sustainability.
2. Mayank Gupta reviews the book "[Quantitative Social Sciences: An Introduction](#)" written by Kosuke Imai. This book is a hands-on introduction to modern quantitative methods in social sciences. It covers a host of cutting-edge issues in quantitative social sciences, from randomization, causality and inference to Bayesian approaches. It discusses a wide range of methods for various types of contexts such as textual, network, and spatial data using relevant empirical examples and detailed R codes.