



**भारतीय रिज़र्व बैंक**  
**RESERVE BANK OF INDIA**

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March 17, 2020

## Publication of RBI-Occasional Papers-Vol. 40, 2019

Today, the Reserve Bank of India releases [Volume 40, No.2 of its Occasional Papers](#), a research journal containing contributions from its staff. This issue contains three articles and two book reviews.

### Articles:

#### 1. [Fiscal Rules and Cyclicity of Fiscal Policy: Evidence from Indian States](#)

Dirghau Keshao Raut and Swati Raju examine the impact of fiscal rules on the cyclicity of fiscal policy of Indian states using data for the period from 1990 to 2018. The results suggest that fiscal rules have reduced pro-cyclicity of fiscal policy, particularly in terms of development expenditure, in the post-FRL period. Fiscal deficit also changed its nature from pro-cyclical in the pre-FRL period to acyclical in the post-FRL period. Capital outlay displayed acyclical behaviour in both pre-and post-FRL periods.

#### 2. [Payment Systems Innovation and Currency Demand in India: Some Applied Perspectives](#)

Dipak R. Chaudhari, Sarat Dhal and Sonali M. Adki postulate currency demand for transaction purposes driven by income effect, and a payment technology induced substitution effect working through velocity of currency. Innovations in payment systems have shown a statistically significant long-run inverse relationship with currency demand in India. However, the magnitude of its coefficient indicates that the substitution effect of payment systems on currency demand is smaller than the dominant income effect.

#### 3. [Can Financial Markets Predict Banking Distress? Evidence from India](#)

Snehal S. Herwadkar and Bhanu Pratap test whether equity markets provide any lead information about stress in the banking system before quarterly data become available to the supervisors. The authors find that markets are able to price-in the banking stress concurrently but not much in advance. As the supervisory data are available with a lag, there is some merit in incorporating market-based information to track banking distress. Interestingly, the findings suggest that markets are relatively less efficient in providing such lead information in the case of public sector banks vis-à-vis private sector banks.

**Book Reviews:**

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

1. Palak Godara reviews the book, "[Narrative Economics: How Stories Go Viral and Drive Major Economic Events](#)" written by Robert J. Shiller. The book explains the role of popular narratives in economic behaviour of agents and their implications for the real world. The collective decisions of economic agents driven by such 'narratives' often lead to irrational behaviour at aggregate level, which, in turn, may lead to economic slowdown or boom.
2. Deepika Rawat reviews the book, "[How to combat recession: stimulus without debt](#)" written by Laurence Seidman. With rising concern about economic slowdown in the global pretext, the book provides a seemingly new idea whereby government can undertake a large fiscal stimulus without an increase in its debt. The author advocates for fiscal stimulus based on transfer from central bank rather than the traditional one based on bonds issuance. He explains that this type of stimulus can be effective in addressing the slowdown without much pressure on inflation and without increasing the government debt.

**Press Release: 2019-2020/2078**

**Ajit Prasad**  
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