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RESERVE BANK OF INDIA

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RBI Releases Winter 2007 Issue of its Occasional Papers

The Reserve Bank of India today released the Winter 2007 issue of its Reserve Bank of India Occasional Papers, which is a research journal of the Reserve Bank and contains contributions of the Bank's staff and reflects the views of the authors. This issue is woven around some important themes which are at the forefront of policy discussion. It contains articles, special notes and book reviews.

The first paper titled 'Corporate Choice for Overseas Borrowings: The Indian Experience' by Shri Bhupal Singh examines the macroeconomic factors that drive the Indian corporates' preference for overseas borrowings. The paper observes that the policy framework on foreign commercial borrowings has been effective in achieving a balanced maturity profile as also in channelising funds to productive sectors. It is observed that foreign borrowings by the corporates and import of capital goods display a close positive relationship. The paper finds that Indian corporates' long-run demand for overseas commercial borrowings is predominantly influenced by the pace of domestic real activity, followed by the interest rate differentials between the domestic and international markets (indicating arbitrage) and the credit conditions. The real variable dominates the price variable in driving the demand for overseas commercial borrowings. Since capital goods import is closely related to growth in industrial production, it implies that the demand for foreign borrowings by the corporates is generated by the underlying pace of real activity.

The second paper titled 'Employees Productivity and Cost – A Comparative Study of Banks in India during 1997 to 2006' by Dr. Sharad Kumar and M. Sreeramulu compares the employee productivity and employee cost ratios between the traditional banks and modern banks from 1997 to 2006. The study concludes that the performance of the modern banks (foreign and new private sector banks) was much superior to the traditional banks (public sector and old private sector banks). However, the gap between the performance of modern and traditional banks has shown a decreasing trend during the 10 year period under study attributable to measures taken by traditional banks to meet the challenges from modern banks to improve operational efficiency

In the section on special notes, the paper titled 'Profitability of Indian Corporate Sector: Productivity, Price or Growth?' by Abhiman Das and Manjusha Senapati examines the major sources of strong profitability of Indian manufacturing companies during recent years. The paper has attempted to decompose the changes in companies' real gross return to capital into contributions from changes in productivity, prices and input growth over a period of seven years from 2000-2006. The productivity of Indian manufacturing companies was found to be 24 per cent higher in 2006 as compared to that in 2000. The actual increase in companies' profit has outpaced the growth in the size of the input quantities on an average. Had the benefits from productivity growth been retained by the companies, without any changes in the input quantities and real output and input prices then the profit of the companies would have increased by 6.8 per cent per annum. The empirical results further indicate that the companies have not passed the benefit from productivity improvement to consumers.

The paper titled 'The Role of Domestic Savings and Foreign Capital Flows in Capital Formation in India' by Dr. Himanshu Joshi examines the role of the capital account of the balance of payments (BoP) to capital formation. The paper, by taking into account the various components of domestic savings and the capital account, establishes the existence of a long-term steady state relationship between capital formation and various savings components and capital account balance. A notable result of the paper is that the short-term dynamics of capital formation are guided significantly by the capital account such that disturbances in the steady state equilibrium are corrected over time by means of changes in the desired amounts of capital flows in the balance of payments. The paper thus, calls for a calibrated approach to ease external capital constraints which would serve to smoothen and foster the capital acquisition cycle for productive activities and help in achieving higher levels of capital formation and economic growth.

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