July-September 2017
Volume XLVI
No. 2

Granger Causality Between Financial Development and Economic Growth in Financial Action Task Force Countries

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In this paper, a Granger causality approach is used to examine the causality between financial development and economic growth in thirty five Financial Action Task Force (FATF) countries. We have arrayed various scenarios to find out this causality, principally with reference to a particular use of financial development. The study deploys twelve different levels of financial development to address this issue. Our findings indicate diverging evidence on the relationship between financial development and economic growth. In some instances, financial development leads to economic growth, lending support to supply-leading hypothesis (SLH) of finance-growth nexus. On other instances, it is the economic growth that leads to financial development, lending support to demand-following hypothesis (DFH) of finance-growth nexus. There are also circumstances, where financial development and economic growth are mutually interdependent. That is the situation where both are self-reinforcing and offer support to feedback hypothesis (FBH) of finance-growth nexus.

Economic Impact of Commodity Transaction Tax on Futures Contracts

Diganta Mukherjee

The commodity futures market has a perceptible impact on its stakeholders and value chain players. The introduction of the commodity futures in India was made with the dual purpose of promoting price discovery and enhancing risk management. Hence, there is a case for policy push for further development of this market, so that its beneficial effects can be spread across many more potential market participants. As the size and the multiplier effect of the commodity derivatives market in India is still quite small by international standards, if the market is to be given a fillip for growth, the policies should be actively revenue positive. This paper analyses the impact of

the Commodity Transaction Tax on the health of the Commodity Futures Market using very detailed data from the MCX. The analysis is done, in terms of four major commodities: Gold, Silver, Copper and CPO, from the perspective of (i) Turnover (both average and volatility), (ii) comparison of trading cost (both with leading international commodity futures markets as well as the securities market in India), (iii) the Bid-Ask spread as an indicator of the depth of the market, (iv) impact costs of trading, (v) tax revenue. It is obvious that the introduction of CTT has adversely impacted the market on all counts, with the impact being of such a magnitude that it is extremely unlikely that market will recover to its original position. It calls for an urgent relook at the system if the health of the market is to be restored.

Revenue and Cost Efficiency Analysis: Empirical Study of Indian Scheduled Commercial Banks

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The paper endeavours to assess Revenue Efficiency vis-à-vis Cost Efficiency of Scheduled Commercial Banks (SCBs) in India. The study also determines the Revenue and Cost Efficiency scores of Scheduled Commercial Banks (SCBs) across ownership. Revenue and Cost Efficiency of banks is calculated by employing the non-parametric approach, namely, Data Envelopment Analysis (DEA). The results of the study reveal that Indian Scheduled Commercial Banks have never achieved full Revenue and Cost Efficiency score of 1 in any of the years during 2002-03 to 2012-13. Across Ownership results of Revenue Efficiency show that Private Sector Banks have picked up their performance in comparison to Public and Foreign Sector Banks in terms of Revenue Efficiency, but the differences were insignificant as depicted by the results of Panel Tobit Regression. According to Cost Efficiency scores, Foreign Sector Banks are placed on the first position, second position is occupied by Private Sector Banks and at last stand the Public Sector Banks.

Invited Article

Expected Credit Loss Estimation: Embedding the Forecasts of Future Economic Conditions as per IFRS 9 Guideline

Sandipan Ray

This paper evaluates few of the popular approaches used for estimating Expected Credit Loss (ECL) by embedding the forecasts of future economic conditions as per IFRS 9 requirement. It is argued that although existing literature suggests superior performance of reduced form model over structural model, for individual financial institutions, developing reduced form model can be a challenge due to:

(a) Difficulty in modeling linkage between macro-economic indicators and portfolio delinquency (especially for retail portfolio)

(b) Forecasting of future macro-economic scenarios which are often subjective and may significantly differ across similar institutions.

A generalized version of the structural model is presented which can incorporate variation in default rate due to credit rating grades and correlation parameter is jointly calibrated along with the unobservable factor. It is possible to incorporate macro-economic factors in this model and can be applied to both retail and corporate portfolio.

Book Reviews

Value Creation – The Definitive Guide for Business Leaders

Gautam Mahajan

New Delhi, Sage Publications India Pvt. Ltd., 2016, xli + 239 pp., Rs. 450.00.

Reviewed by **Dr K Ramesha,** Professor, National Institute of Bank Management, Pune.

Changing Contours of Microfinance in India

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Diatha Krishna Sundar

Routledge, South Asia Edition, Taylor & Francis Books India Pvt. Ltd., 2016, pg. xix+244 Rs. 850.

Reviewed by **Dr Achintan Bhattacharya**, Former Director, National Institute of Bank Management, Pune.