

## **Transmission Mechanism of Monetary Policy in Pre- and Post-Reforms Periods in India**

- *Satish Verma, Jatinder Pa*

Two institutional developments of far-reaching consequences that took place in India are : (i) the Chakravarty Committee report (1985) which advocated monetary targeting in terms of M3, and (ii) the financial sector reforms (manifested mainly in the shift from direct to indirect instruments of credit control and the stress on the use of financial markets to raise resources, etc.) implemented following the Narasimham Committee Reports (1991 & 1998). These developments influenced to a great extent the transmission mechanism of monetary policy in India as is evidenced by its behaviour in pre- and post-reforms periods.

In this study, an attempt has been made to present empirical evidence on the presence of credit and interest rate channels of monetary transmission using Indian quarterly data for a span of twenty-seven years (1977:1–2003:4). In this endeavour, a multivariate cointegration analysis and error-correction mechanism within Hsiao Version of Granger causality were carried out to shed some light on the working of monetary transmission mechanism. The study broadly concludes that the financial sector reforms did not provide manoeuvrability to monetary authority to conduct its policy independently. Further, the empirical evidence suggested the presence of both credit and interest rate channels in pre- and post-reforms periods, but their impact tended to liquidate in post-reforms period. Although, the rate of interest was found ineffective in explaining the variations in output, but the study confirmed some evidence as far as its impact on prices are concerned.

### **Brief Articles, Notes and Comments**

#### **Assessment of Risk and Return : An Indian Experience**

- *Raj S Dhankar, Rakesh Kumar*

In the age of globalization, foreign capital has become the wheel of the economic development. If a country wants to walk with the rest of the world, foreign capital contributes to achieve a competitive edge. In order to attract the foreign capital all developing countries are working on the principles of liberalization and globalization. India is no exception to it. Being the fifth largest economy of the world with huge potential in all sectors, India can be the most prospective destination for the foreign investors. The risk and return are the two parameters of economy, which attract the fancy of the investors. This paper does an assessment of these two parameters in Indian stock market for the period June 1996 to May 2005. During this ten year period, Indian economy has not remained stable throughout, instead passed through three distinct phases successively, i.e., decline, recession and growth. We examine the risk and return profile of the Indian stock market under these different economic conditions, and their futuristic scenario.

#### **Asset Reconstruction Company (India) Limited and Management of Non-Performing Assets of Indian Banks**

- *Manoj Pillai*

The presence of Non-Performing Assets has had an adverse impact on the productivity and efficiency of Indian banks which has resulted in the erosion of profits. Their continued amelioration in absolute terms proved the survival of Indian banks very difficult. The Non-Performing Assets are the bad debts or non-recovered loans of the banks which now stand at over Rs. 50,000 crores. The Narasimham committee (II) on banking sector reforms recommended the establishment of Assets Reconstruction Companies to check the non-performing assets. Asset Reconstruction Company (India) Limited (ARCIL), the pioneer Assets Reconstruction Companies of India, commenced operation from August 29, 2003.

## **Bancassurance in India : Who is Tying the Knot With Whom, Why and How**

- *Sonia Chawla, Fulbag Singh*

Privatization of Indian life insurance industry has led to a major challenge of distributing the insurance products along with the overall development of the industry. The distributors have become the trusted financial advisors for the clients and trusted business associates for the insurance companies, so this calls for leveraging multiple distribution channels in a cost effective and customer friendly manner. Among the new emerging channels bancassurance has taken a lead as compared to the other channels. It took a long time to develop this mode of distribution, through several development phases. Bancassurance can be applied with different models depending upon different situations, relationships and environments. Bancassurance has been an extremely successful business model in Europe, and banks and insurers are eager to repeat this success story in Asia. In the paper we are going to discuss the experience of some markets as regards the bancassurance along with the developments in the Indian market, benefits of this mode of distribution for the insurer and the bank, factors favouring the bancassurance in India, bancassurance tie-ups, issues to be focused for its growth and proper implementation and finally the kind of model to be adopted in India keeping in mind the surrounding environment.

**Book Review**

**Telegraphic Reviews**