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Reserve Bank of India releases Monsoon 2007 Issue of Its Occasional Papers

The Reserve Bank of India today released the Monsoon 2007 issue of its Reserve Bank of India Occasional Papers. The Reserve Bank of India Occasional Papers 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 entitled, `Monetary Policy Committee: What Works and Where' by Michael Debabrata Patra and Amaresh Samantaraya undertakes a survey of the literature and the cross-country experience in regard to what is termed as the `quiet revolution' in central banking since the late 1990s, i.e., the formation of monetary policy committees (MPCs) as decision making mechanism in central banks. The paper notes that issues relating to the constitution of MPC, its empowerment and functions have to be assessed in the broader context of the evolving social, political and legal/institutional ethos in an economy. The paper also constructs an index of MPC Empowerment, taking into account several characteristics in terms of its composition, transparency and autonomy and suggests that more empowered MPCs seem to deliver better inflation results but with little improvement in growth outcomes relative to their less empowered counterparts.

The second paper entitled, `Commodity Derivatives and Price Risk Management: An Empirical Anecdote from India' by S.M. Lokare endeavours to test the efficacy and performance of commodity derivatives in India in steering price risk management.

The paper notes that commodity derivatives trading in India witnessed a massive spurt in the recent period. The total value of committee derivatives trading accounts for about 2/3 of overall GDP, reflecting the extent of depth that this market has gained in the economy. In India, however, it is largely the agricultural commodities, which are traded on the existing exchanges.

The paper observes that liquidity in respect of primary commodities was found to be high only in few commodities, such as, castorseed, soyabean oil and to some extent cotton, while in the case of others, it was quite thin. These markets in India are thus, yet to achieve minimum critical liquidity that can generate greater economies of scale, minimum transaction costs and wider participation. By and large, trading in the commodity derivatives is moving in the desired direction of achieving improved operational efficiency, albeit, at a slower pace. The paper indicates that several measures in the institutional, infrastructural and legal spheres are warranted for the rapid development of these markets in the country.

Furthermore, as the markets develop, it needs to be explored whether future prices, which contain useful information about the future demand and supply conditions, could be used as an input for arriving at expected inflation and interest rates by the market participants and whether the information content of futures prices could be factored in the future monetary policy formulation.

The section on special notes has a paper entitled, `Regional Co-operation in Asia: Status and Issues' by Rajiv Ranjan, Rajeev Jain and Atri Mukherjee. The paper gives a brief macroeconomic review of the Asian region and attempts to review the growing economic dynamism of Asian region reflected in its expanding role in the world economic affairs and growing cooperation at regional/sub-regional level. It also identifies major issues and challenges which need to be addressed for furthering a successful move towards greater regional economic and monetary cooperation and concludes that while there is further scope for economic cooperation in certain areas, there are various challenges to be addressed in the context of policy convergence.

The second paper in this section, `Revisiting bank-linked Self Help Groups (SHGs) – A study of Rajasthan State' by Navin Bhatia attempts a detailed analysis of SHGs in Rajasthan to study the mechanism of lending through Self Help Groups (SHGs) particularly from the aspect of sustainability. This paper is based on a State-level study conducted by 2005-06 to review the status of SHGs, which were linked to banks till March 1998 under the SHG bank linkage programme. It also introduces the concept of SHGs and portrays their status on various parameters, such as, continued existence, membership, meetings held, leadership, savings made and loans obtained, loan utilisation and repayment record.

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