

ANALYTIQUE



Vol. IX · No. 2 · Apr - Jun 2014

»» The Choice of Policy Priority Between
Agriculture and Non-Agriculture

– Manas Paul

»» Consumerism – The Trend in India

– Rajnarayan Gupta

»» Does Inflation Affect Indian
Economic Growth?

– Surajit Sinha

»» Priority Sector Financing in India:
Past, Present and Future

– Ram Pratap Sinha

»» Non Banking Finance Companies
– Time to Introspect!

– Naresh Makhijani



Bombay Chamber of Commerce & Industry

The Bombay Chamber of Commerce and Industry is India's premier Chamber of Commerce and Industry situated in Mumbai, the industrial, financial and commercial capital of India. Established in 1836, it is one of the oldest Chambers in the country and has a long and illustrious history of continuous service to trade and industry.

The Chamber can boast not only of its longevity but also of its impeccable lineage. With more than 4000 prime companies as its members, the Chamber represents the cream of Indian Industry, Commerce and Services. While the name 'Bombay Chamber' conjures images of an organization representing exclusively a city-based membership, in reality it represents a wide spectrum of highly reputed and professionally run companies which are based in the city of Mumbai, but whose manufacturing facilities and commercial influence spread not only all over India but also internationally.

The Chamber uniquely represents large and medium sized Corporations, Banking and Financial Institutions, professional Consulting Companies and a large number of Multinationals. It comes as no surprise that today the Bombay Chamber's membership represents as much as a third of the country's GDP in the manufacturing and service sectors.

Bombay Chamber of Commerce and Industry

Mackinnon Mackenzie Building, Ballard Estate, Mumbai 400 001

Tel: 91-22-4910 0200

E-mail: bcci@bombaychamber.com

Website: www.bombaychamber.com

From the Editor's Desk

Recently, global activity appears to have moderated on slower growth in the US, the UK and Japan, continuing sluggishness in the Euro area and a subdued pick-up in emerging and developing economies, restrained by the uncertain external demand environment as well as by localised cyclical and structural constraints. Domestically, real GDP growth continued to be modest with some strengthening of activity in services such as trade, hotels, transport and communication, and financing, real estate and business services. Despite some positive movement in more recent data, industrial activity continues to be a drag on the economy, with retrenchment in both consumption and investment demand reflected in the contraction of output of consumer durables as well as capital goods. Moreover, the outlook for the 2014 south-west monsoon appears uncertain. Sluggishness in industrial activity, exports and several categories of services underlines the need to revitalise productivity and competitiveness.

Lead indicators do not point to any sustained revival in industry and services as yet, and the outlook for the agricultural sector is contingent upon the timely arrival and spread of the monsoon. Easing of domestic supply bottlenecks and progress on the implementation of stalled projects already cleared should brighten up the growth outlook, as would stronger anticipated export growth as the world economy picks up.

It is in this backdrop the newly elected Finance Minister Mr. Arun Jaitley is expected to table Union Budget for 2014-15 in Lok Sabha by mid-July 2014. Let us hope for the best to find out ways of the much said existing problems of slowing economic growth, escalated fiscal deficit and high food inflation which have been causing a downtrend in investment and consumer demand, leading to vicious circle.

Contents

Special Theme

- The Choice of Policy
Priority Between Agriculture
and Non-Agriculture
Manas Paul 02
- Consumerism
– The Trend in India
Rajnarayan Gupta 09
- Does Inflation Affect
Indian Economic Growth?
Surajit Sinha 14
- Priority Sector Financing
in India: Past, Present
and Future
Ram Pratap Sinha 23

Current Affairs

- Non Banking Finance
Companies – Time to
Introspect!
Naresh Makhijani 34

Editorial Board

Vikas Gadre
Dr. Sugeeta Upadhyay

Disclaimer - The articles published in ANALYTIQUE do not necessarily reflect the views of the Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies.

Printed at Uchitha Graphic Printers Pvt. Ltd.

The Choice of Policy Priority Between Agriculture and Non-Agriculture*

Manas Paul**

Abstract

We study the linkages between the broad sectors of agriculture, industry and services in more recent Indian data. Though we find evidence of uni-directional causality running from both industry and services sector to growth in agriculture, there is no evidence of directional causality running from agriculture either to industrial or to services sector growth. The results appear to be in support of near-term policy initiatives favoring the industrial and more so the services sector in sustaining the growth momentum of the economy especially during periods of exogenous agricultural shocks. Without downplaying the importance of agriculture, the nature of such inter-sectoral relationships possibly indicates that: (i) in its current structure the agriculture sector has a limited role as a driving force for non-agriculture sectors of the Indian economy; (ii) that at least any policy priority favoring services sector need not necessarily go against agricultural growth if at all has positive linkages to it and (ii) that we as a nation remain yet far off in harnessing the larger potential benefits of

accelerated agricultural improvements.

Introduction

A large part of the credit behind the current phase of phenomenal Indian growth has been attributed to the structural reforms that got initiated in early 1990's. The changes associated with such reforms are likely to get captured in the more recent data than those lying further off. It was in this respect that we thought of exploring the sectoral inter-linkages in Indian economy using the more recent quarterly data on Indian GDP, (available from 1996 onwards).

The structural reforms so far, have been perceived to be more successful in increasing the efficiency and competitiveness of Indian industry largely comprised of manufacturing. Impacts of agricultural reforms that have been perceived so far are either perceived to be inadequate or at least far from being as far reaching as they have been for manufacturing.

Exogenous shocks to economy through agriculture as a fall-out of adverse weather conditions remains a reality even today. In such an event, the

* This article is based on the original paper presented at the conference on the Money & Finance organized by Indira Gandhi Institute of Development Research (IGIDR), Mumbai in 2010.

** Manas Paul is the Vice President, Business and Economics Research at Axis Bank Ltd. He can be reached at manas.paul@axisbank.com

presence of bi-directional sectoral linkages between industry and services (in the absence of directional causality running from agriculture to non-agriculture growth) can still help sustaining the growth momentum through appropriate policy initiatives favoring these sectors. Policy initiatives favoring industry and services in such a set up would be effective in neutralizing some of the negatives of adverse shocks from agriculture. In the same spirit adverse shocks either to industrial and/or services growths are likely to get magnified and policy initiatives directed towards agriculture alone to counter this need not be effective in yielding the desired result.

Given the importance of this issue, it is unlikely that it has not been explored before in the Indian context. Kalirajan & Shanker (2001), while discussing the subdued importance of agriculture in India's economic reform program, pointed towards bi-directional causality between industrial performance and agriculture. Chaudhuri & Rao (2004) pointed out that the presence of exogeneity of agriculture and that endogeneity of industrial performance in an industry agriculture inter-linkage need not be taken for granted. In other words agriculture need not be the driving force in an industry agriculture inter-linkage. Tarlok Singh (2009) emphasizes the importance of services sector in supporting Indian growth.

All of these studies are based upon long-term annual data that either club together periods before and after the structural reforms or deals with pre-

reform period data. Moreover, these studies end up adopting a two variable framework approach in exploring either the inter-linkage between industry and agriculture or between services GDP and non-services GDP. In the present study we wanted to take a fresh look at the sectoral inter-linkages in the more recent Indian data.

The study is based upon quarterly data on the three broad sectors of GDP. They are industry, agriculture and service from second quarter of the year 1997 to third quarter of the year 2009. In our analysis agricultural growth implies growth of output from agriculture and allied activities (like forestry and fishing). Industrial growth means growth in the sum total of output from mining and quarrying, manufacturing and electricity gas and water supply. Services growth implies the growth in sum total of output from construction, trade, hotels, transport and communication and also from financing, insurance, real estate and business services. The data source is National Accounts Statistics from the Central Statistical Organization. The classification of overall sectors (consists of agriculture, industry and services) is as per RBI (Reserve Bank of India) data as presented in the Hand Book of Statistics on Indian Economy.

Figure 1 shows the increasing dependence of Indian growth on services and industry both in terms of share as well as contribution to growth. For agriculture even if the share could be construed to be somewhat stable, it's contribution to growth show wide variations (Figure 2).

Figure 1: Rising Share of Non-Agriculture GDP

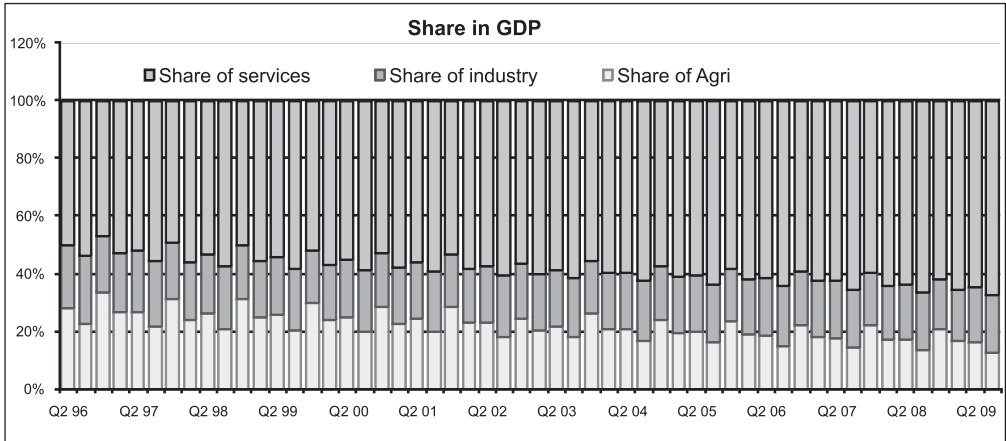
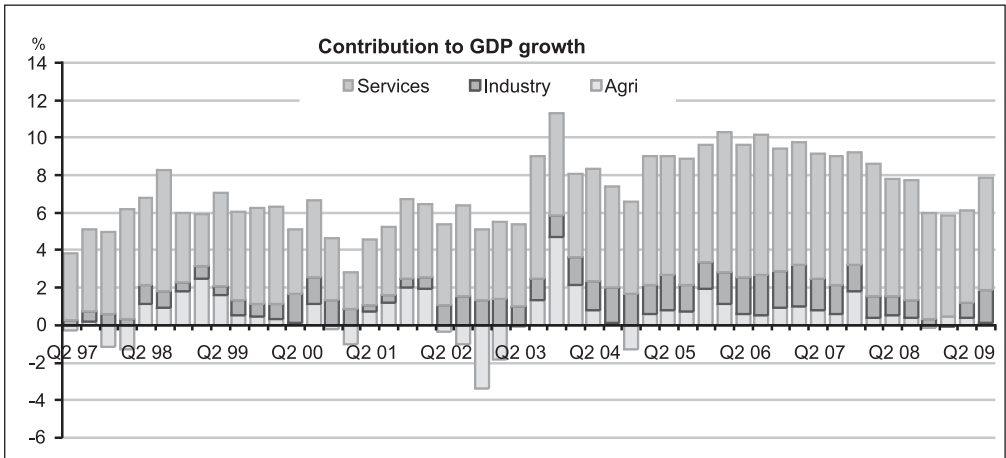


Figure 2: Contribution of Agriculture to Growth



Source: CSO, Axis Bank Research

Empirical Investigation and Interpretation of the Result

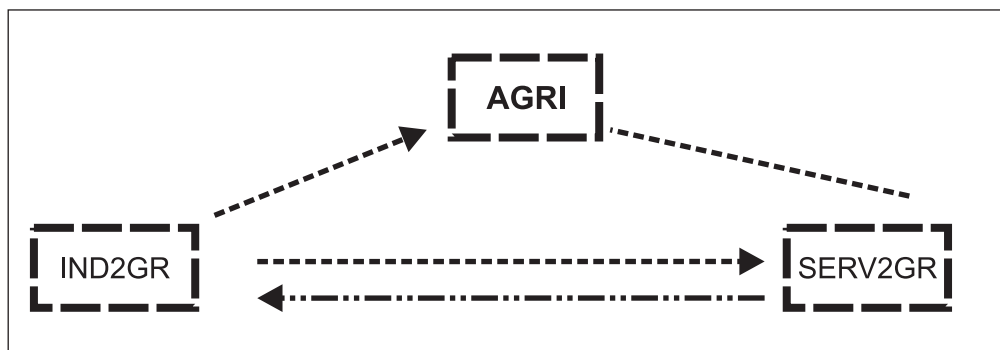
To examine possible feedback mechanism that might exist amongst the three broad sectors of agriculture, industry and services; we look into pattern of causality amongst them in a systems framework. From policy perspective, what matters are not only direction of causality but their magnitude and persistence as well.

The present system allows us to do so by observing the impulse response functions.

Both the causality tests and impulse responses are based on two models chosen by the different model selection criteria.¹

Causality tests points to the following type of inter-sectoral interactions:

Figure 3: Direction of Casuality



Impulse responses convey the basic results of the causality tests: that growth in agriculture does not feed into either industrial or the services sector growth; and that there is positive bi-directional causality between industry and services.

Without downplaying the importance of agriculture, the nature of such inter-sectoral relationships possibly indicates that at least any policy priority favoring services sector need not necessarily go against agricultural growth if at all has significant positive linkages for it. This is more in tune with the results of Tarlok Singh (2009) even after allowing for explicit interactions between agriculture, industry and services rather than clubbing the first two sectors as non-services GDP.

This by no means is an effort to belittle any policy priority against the rural economy. Rather it is a question of exploring the status of agriculture in its present form as a driving force for the economy. In fact the importance of rural India can never be undermined. Housing around 71% of the population it contributes nearly half of the Indian GDP. Even if it contributes around 94%

of the agriculture GDP it produces nearly half (46%) of the industry GDP and around one third (34%) of the services GDP as well (Table 1).

Table 1: Net Domestic Product by Economic Activity 2004-05 (Current Prices)

Rs. Crore	Rural	Urban	Total	Rural as % of total
Agri	486781	30870	517651	94%
Industry	206071	244445	450516	46%
Services	576866	1101338	1678204	34%
Population	777.7	311.3	1089	71%
Total	1269718	1376653	2646371	48%

Source: NAS 2010, Axis Bank Research

Our empirical investigation in the more recent Indian data, rules out agriculture in its current form as a driving force for non-agriculture growth. Though, the results do not rule out prospects of directional causality running from industry and services to agriculture.

The study thus convey the basic results that growth in agriculture does not feed into either industrial or the services sector growth and that there exists positive bi-directional causality between industry and services. Our impulse response functions in both the

models used throws up the possibility of some negative even if negligible feedback from innovations in industrial growth to agriculture. The reason behind this is not exactly clear to us. It needs to be explored if this could be related to issues like increasing dependence of agriculture for its critical inputs on non-agriculture sector like chemical fertilizer or relative decline in the importance of agro based industries in the total output of registered manufacturing or there is something else that is not that obvious.

That leaves behind some important questions to be addressed as to why such an important segment of the economy housing the lion's share of population is failing to emerge as a driver of non-agricultural growth. Does it point to the lack of expanding economic opportunities and adequate investments in raising production and rural income when the same is happening in non-agriculture sectors? Does it point to the limited success of Indian agriculture policy in achieving self-sufficiency in food alone without being able to exploit the advantage of cheap raw materials and labour in developing agro-based industries? More so has the reforms process so far ignored the sectors capacity to contribute to a more rapid overall rate

of economic growth?

There is always the common criticism of lack of adequate investments both (private and public) in agriculture, to keep pace with the mix of constant rise in population and the odds of vagaries of monsoon. For one, investment in agriculture has been painfully low. If India has been talking out investment rate in excess of 37% in the recent past, agricultural investment has remained painfully low at around 3%, even though it's share in overall GDP varied in the range of 16% to 19% (Table 2).

What has been of even more concern is inadequate public investment in agriculture. Over the entire Tenth Plan period if the share of private investment in agriculture and allied activities has been at 2% of GDP, that of public investment has averaged around a miniscule half a percentage of GDP²

Moreover, despite all our achievements in other fronts, of the 124mn hectares of land under food grains cultivation (which has itself seen a decline from over 131mn hectares in FY84) only 45.5% are covered under irrigation³, exposing more than half of our cultivated land to the vagaries of monsoons.

Table 2: Sectoral Share in GDP and Capital Formation 2004-05 (Current Prices)

	Sectoral share in total GDP					Sectoral capital formation (net) as a % of GDP				
	2004-05	2005-06	2006-07	2007-08	2008-09 QE	2004-05	2005-06	2006-07	2007-08	2008-09
AGRI	19%	18%	17%	16%	16%	2.7%	2.9%	2.6%	2.8%	3.3%
IND	20%	20%	21%	21%	20%	14.5%	15.8%	17.7%	19.0%	14.8%
SERV	61%	62%	62%	63%	64%	16.9%	17.5%	17.9%	18.5%	18.7%

Source: NAS 2010, Axis Bank Research

In terms of productivity, according to 2006 figures, the 3124 kg yield per hectare of paddy in India remained well below the world average at 4112kgs, it is around half the Chinese yield at 6265kgs, well below the yield per hectare for Myanmar (at 3500kgs), Philippines (at 3684kgs) and Vietnam (at 4981kgs), even marginally lower than the yield per hectare of Pakistan at 3164kgs⁴.

It would be quite unlikely to be able to ensure agricultural development by confining attention within the boundaries of agricultural fields alone. As a matter of fact it has to encompass the entire gamut of production, availability of banking and finance, development of rural markets, roads and communications, agricultural research and its percolation through agricultural education.

The detailed break up of Net Domestic Product by economic activity for NAS 2004-05 (the most recent data available) shows the need for considerable improvements at the least in rural banking and insurance as well as communication. For example the rural economy as a whole has a 34% share in overall services production in the economy. In relation to that it's share in the banking and insurance GDP at a meager 15% and that in communication at 17% appear unusually low.

At the background of such structural deficiencies in Indian agriculture, the results of our exercise do not seem to spring any unexpected surprise. Though, at the same time it supports

any sense of urgency for a closer scrutiny of this important sector of the economy, one to harness the potential for higher sustainable growth and two to transform it into to a driving force for non-agriculture sectors of the Indian economy. Extension of similar analysis into added levels of granularity across sub-sectors and states can make the output lot richer and insightful.

Conclusion

Exogenous shocks to economy through agriculture as a fall-out of adverse weather conditions remains a reality even today. In such an event, bi-directional sectoral linkages between industry and services (in the absence of directional causality running from agriculture to non-agriculture growth) can still help in sustaining the growth momentum through appropriate policy initiatives favoring these sectors. Policy initiatives favoring industry and services in such a set up would be effective in neutralizing some of the negatives of adverse shocks from agriculture. In the same spirit adverse shocks either to industrial and/or services growths are likely to get magnified and policy initiatives directed towards agricultural growth to counter this need not be effective in yielding the desired result. There can be no two doubts about the economic and social importance of agriculture for its contribution towards achievement of the national objectives of food security, employment, regional equilibrium and social cohesion. However, in its current structure the agriculture sector might have a limited role as a driving force

for the other non-agriculture sectors of the Indian economy.

Notes

1. Technical details available on request to Analytique.
2. Agriculture Statistics at a Glance 2008, Table 3.6(c).
3. _____, Table 4.5(a).
4. _____, Table 7.2.

References

1. Chaudhuri, K. & Rao R.K. (2004), "Output Fluctuations in Indian Agriculture and Industry: a Reexamination", *Journal of Policy Modeling*, Vol. 26, pp. 223-237.
2. Geweke, J., Meese R and Dent W. (1983): "Comparing Alternative Tests of Causality in Temporal Systems. Analytic Results and Experimental Evidence", *Journal of Econometrics*, 21 (1), 161-194.
3. Granger, C.W.J. (1969): "Investigating Causal Relations by Econometric Models and Cross – Spectral Methods", *Econometrica*, 37 (3), 424-438.
4. Guilkey, D.K. and Salemi M.K. (1982): "Small Sample Properties of Three Tests For Granger-Causal Ordering in a Bivariate Stochastic System", *Review of Economics and Statistics*, 64 (4), 668 – 680.
5. Kalirajan K.P & Shankar. U (2001), "Agriculture in India's Economic Reform Program", *Journal of Asian Economics*, Vol. 12, pp 283-399.
6. Lütkepohl, Helmut (1991). *Introduction to Multiple Time Series Analysis*, New York: Springer-Verlag.
7. Sims, C.A. (1972): "Money, Income and Causality", *American Economic Review*, 62, 540-552.
8. Singh Tarlok (2009), "Services Sector and Economic Growth in India", *Applied economics*, pp. 1-17.



C Consumerism – The Trend in India

Rajnarayan Gupta*

Abstract

People say that consumerism is increasing. Then, how is consumerism defined and measured? The present study attempts to give a definition of consumerism and examines whether there is any substance in the popular belief in increasing consumerism. The study refers to the Indian scenario. Consumption of durable goods and their share in the consumer's budget are considered to be the two indices of consumerism. The study is based on NSS (National Sample Survey) data. The three quinquennial surveys of NSSO (National Sample Survey Organization), viz., the 43rd round, the 50th round and the 61st round have been considered for the investigation. However, the study reaches a mixed conclusion on the basis of available data. Consumerism seems to have increased in terms of consumption of durable goods but not in terms of budget share.

Introduction

The word 'consumerism' is used in different meanings in different contexts. At least, the word has two

meanings in vogue. Sometimes it is used in the sense of an indulgence in consumption. Sometimes it is also used to mean protection of the consumer right or consumer sovereignty. In this study, however, consumerism has been defined in the first sense of the term, it means enhancement in the spirit of consumption.

There is a common belief that consumerism is increasing in the world, people are being more inclined to material consumption. Perhaps this conjecture appears sensible with the increasing commercialization of the society and with the ever increasing magnitude of advertisement for consumer goods and their constant pampering in the media, especially in the electronic media. The present study examines whether there is really any substance in this conjecture. At the outset, the study needs to give a more specific and quantifiable definition of consumerism. The notion of increasing consumerism is then empirically verified with NSS (National Sample Survey) data. The three quinquennial surveys of NSSO (National Sample Survey Organization), viz., the 43rd round, the 50th round and the 61st round have been considered for the investigation.

* Rajnarayan Gupta is Reader at Department of Economics, Presidency College, Kolkata. He can be reached at rajngupta75@yahoo.co.in

Consumerism, as the term is defined here, should have not much to do with essential commodities like food items or health services. The demands for those items are inelastic. Even if people are motivated to speed up consumption, they are least likely to raise the consumption of essentials. Consumerism should affect the consumption of non-essential items or, more specifically, the luxury items. The present study examines whether the consumption pattern shows a tilt towards luxury items.

It is very difficult to draw a dividing line between essential and non-essential commodities. The very concepts of 'essential' and 'non-essential' are relative. What was non-essential in the past has become essential in the present. Similarly, what is being considered as non-essential today may be regarded as essential in the future. It is also very difficult to dub an item essential or non-essential uniformly for all classes of people. What is used as an essential commodity to the rich may appear quite luxurious to the poorest section of the society. However, in spite of all these definitional problems, it would probably not be unwise to make some gross classification of consumer goods between essentials and non-essentials. Food items and health facilities, it has been mentioned above, can be regarded as essential commodities. Consumer durables, at the other end, should grossly fall in the category of non-essentials. People can live without a TV or a car, but they cannot live without food. Regarding other groups of consumption items, it is very difficult, however, to mark them as essentials or non-essentials.

The present study concentrates on the consumption of durable goods. Since consumer durables are almost purely non-essentials to all classes of people, the level of consumption of those goods and their share in the consumer's budget can be treated as two indices of consumerism – the spirit of consumption. The study verifies whether consumerism has increased in recent years with data published by NSSO.

Expenditure on Consumer Durables – A Study Based on NSS Data

NSSO conducts detailed survey of consumer expenditure throughout the country in every fifth year. The last four of these quinquennial surveys, viz., the 43rd round, the 50th round, the 55th round and the 61st round were carried out in 1987-88, 1993-94, 1999-00 and 2004-05 respectively. NSS divides the population into several expenditure classes. Expenditure classes are typically called Monthly Per Capita Consumer Expenditure (MPCE) classes. Total monthly consumer expenditure of a household is divided by the number of family members to get MPCE of that household. Data are provided on average monthly per capita expenditure on different broad groups of food and non-food items for different expenditure classes.

A household is defined to be a group of persons who live together and take food from a common kitchen. Temporary visitors are excluded from the household but temporary stay-aways are included. Household consumer expenditure is then the total expenditure of the

household on various groups of items, viz., food, clothing, health, education, durable goods and others. The present study considers only the expenditure on consumer durables. By consumer durables, the survey means all consumption items which have a lifetime of one year or more. Thus, durable goods include furniture, television sets, tape recorders, jewellery and ornaments, home appliances like washing machines or refrigerators and so on. Consumption expenditure on durable goods includes both expenditure on purchase and expenditure on repair and construction of household durables.

NSS collects data on expenditure with reference period of 30 days and/ or 365 days. However, up to the 50th round survey, data were published only with the reference period of 30 days. The 55th round survey published data with both 30-day reference period and 365-day reference period. Data on five categories of goods and services, viz., clothing, footwear, education, medical services and durable goods were published with 365-day reference period while data on all other types of goods and services were published with reference period of 30 days. The 61st round survey published data on all items with reference period of 30 days, but in addition it also presented data on those five special categories of goods and services with 365-day reference period, varying reference period is a constraint to comparison of data across surveys. Reported expenditure generally remains higher with longer reference period, underreporting is more likely with shorter reference period. Expenditure on consumer durables in the 55th round survey, for that matter, is not

comparable with that in the preceding two surveys, viz., the 43rd round and the 50th round, because the 55th round survey used only 365-day reference period while the 43rd round and the 50th round surveys provided data only with 30-day reference period. The 55th round results can only be compared with the 61st round results, because the 61st round survey published data on consumer durables with both 30-day and 365-day reference periods. The present study compares among the 43rd round, the 50th round and the 61st round surveys to have a long run view of the consumption dynamics. The 55th round survey has been abandoned for genuine reasons.

The average monthly per capita expenditures on consumer durables for all MPCE classes as obtained in those three quinquennial surveys (on consumer expenditure) are given in the Table 1. The values in parentheses show the percentage budget shares of durables which are obtained by dividing expenditure on durables (per person) by total expenditure (per person) and multiplying the quotient by 100.

Table 1: Average Monthly Per Capita Expenditure (Rs.) on Consumer Durables

Survey	Rural Sector	Urban Sector
43rd ROUND (1987-88)	5.64 (3.50)	10.60 (4.20)
50th ROUND (1993-94)	7.67 (2.70)	15.17 (3.30)
61st ROUND (2004-05)	19.23 (3.40)	42.81 (4.00)

Note: The values in parentheses are the percentage budget shares of consumer durables.

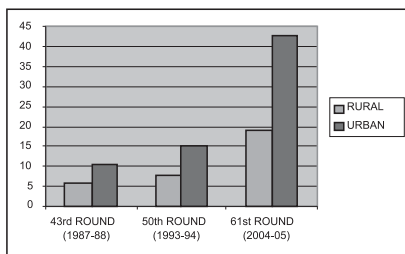
Source: NSSO, NSS 43rd, 50th and 61st rounds.

The intertemporal comparison shows that expenditure on consumer durables has risen over time. This is true for both the sectors. But, the budget share of consumer durables does not show any uniform trend – upward or downward. In the rural sector, average expenditure on durables rises from Rs. 5.64 in 1987-88 to Rs. 7.67 in 1993-94 and then to Rs. 19.23 in 2004-05; but, the budget share first falls from 3.50 to 2.70 and then rises to 3.40. In the urban sector too, budget share first falls from 4.20 in 1987-88 to 3.30 in 1993-94 and then rises to 4.00 in 2004-05, although absolute expenditure rises continuously from Rs.10.60 to 15.17 and then to Rs. 42.81. It appears therefore that irrespective of sectors, expenditure on consumer durables has no doubt increased (Figure 1), but no trend is visible in the budget share

(Figure 2). In other words, expenditure is rising in absolute term but not in relative term.

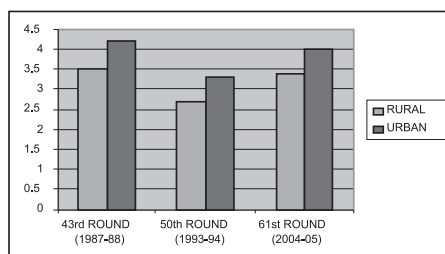
The increase in expenditure on consumer durables over time implies increase in real consumption as well because prices of durable goods, in general, are falling. Indeed, it is the decline in prices that has caused consumption to rise. Since demands for those goods are highly elastic, consumption responds strongly to changes in prices. Also, the increase in durable goods consumption can be attributed to the rise in overall affluence of the society. The (per capita) real income of the people, for instance, has increased substantially during the period under consideration (Figure 3) which, in turn, should have stimulated overall level of consumption and hence consumption of durables.

Figure 1: Average Monthly Per Capita Expenditure (Rs.) on Consumer Durables



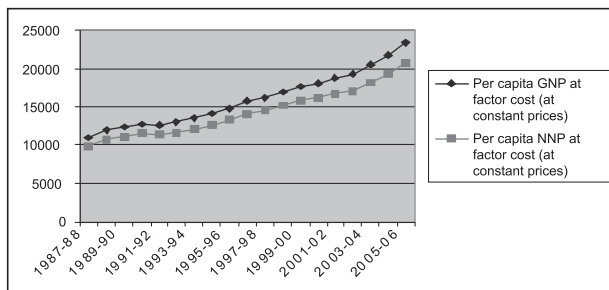
Source: NSSO, NSS 43rd, 50th and 61st rounds

Figure 2: Average Budget Share of Consumer Durables



Source: NSSO, NSS 43rd, 50th and 61st rounds

Figure 3: Per Capita Real Income (Rs.)



Source: Central Statistical Organization (CSO).

Conclusion

NSS data reveal that consumption of durable goods has risen over the period from 1987-88 to 2004-05, but their budget share does not show any uniform pattern. This is true for both the rural sector and the urban sector. Thus, the study reaches mixed conclusion. Increasing consumerism is evident in India if the level of consumption of durable goods is the yardstick of consumerism. People, it seems, are consuming more of durable goods than earlier and this is true for almost all classes of people – whether in the rural area or in the urban area. Noticeably, however, more consumption has not meant greater weight of those goods in the consumer's budget. Thus, in spite of so many inducements and the demonstration effect, the relative importance of durables has not increased in the consumer's budget allocation. Increasing consumerism is therefore not evident from durable goods' budget share. It appears rather that people are consuming more of those goods because prices of those goods are falling and because their real incomes are increasing.

References

1. Krishnamurthy, S (2004): "Consumer Durables: Less Pricey, More Competitive", The Hindu Business Line, January, 2009.
2. NSSO (1989): Level and Pattern of Consumer Expenditure, 1987-88, NSS 43rd Round, Ministry of Statistics and Programme Implementation, Government of India, New Delhi.
3. _____, (1995) : Level and Pattern of Consumer Expenditure, 1993-94, NSS 50th Round.
4. _____, (2001): Level and Pattern of Consumer Expenditure, 1999-00, NSS 55th Round.
5. _____, (2006): Level and Pattern of Consumer Expenditure, 2004-05, NSS 61st Round.
6. _____, (1995): Consumption of Some Important Commodities in India, 1993-94, NSS 50th Round.
7. _____, (2001): Household Consumer Expenditure in India: Key Results, 1999-2000, NSS 55th Round.
8. RBI (2007): Handbook of Statistics on Indian Economy, www.rbi.org.in.
9. Singh Sethi, Amarjit (2001): "Globalization and the Emerging Pattern of PFCE – The Indian Experience", The Journal of Income and Wealth, July – December.



Does Inflation Affect Indian Economic Growth?

Surajit Sinha*

Abstract

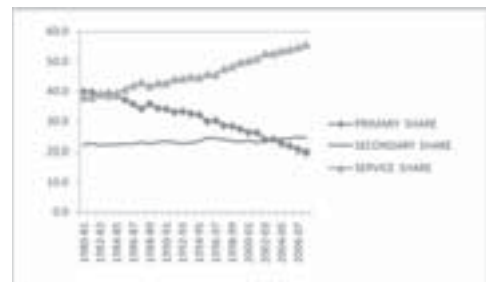
Cyclical macroeconomic theory often assumes an inverse relationship between inflation and unemployment, popularly known as the Phillips Curve. Okun's Law on the other hand has empirically demonstrated the exact empirical relationship between increase in output growth and reduction in the unemployment rate in countries like US. The two together therefore imply that increases in growth rate of output will be accompanied by rising inflation rate. This is not the only truth. Stagflation is also quite well known in the western world where falling growth rate of output is coupled with rising inflation rate. Is there any systematic relationship between inflation and output growth in India since the modern phase of the Indian economy began in the early 1980s? This paper makes a preliminary attempt to unravel this relationship.

Introduction

People often talk about remarkable changes that have taken place in the Indian economy since the structural reforms were initiated in mid-1991.¹ Let us consider some figures first. At the end of the first year of the new

Sixth Plan in 1980-81 which saw the beginning of the modernization phase in the Indian economy, the respective shares of the three major sectors in real GDP (at factor cost, 1999-2000 prices) were Primary (40%), Secondary (22%) and Service sector (38%). After twenty seven years of various kinds of efforts toward modernization and liberalization, these respective shares in 2007-08 stood at 20%, 24% and 56%. Therefore, the share of the Primary sector in the Indian economy has halved since 1980-81, whereas the Service sector has grown to above 50 percent of our GDP while the Secondary Sector has managed only marginal gains. This undoubtedly indicates the trend of our economy towards a predominately service economy with an approximately equal share among the other two sectors.

Figure 1



An earlier version of this paper was presented in the national seminar on 'Impact of Inflation on Indian Economy' held at DAV College, Kanpur in November, 2009.

* Surajit Sinha is Professor of Economics, HSS Department, IIT, Kanpur. He can be reached at surajit@iitk.ac.in

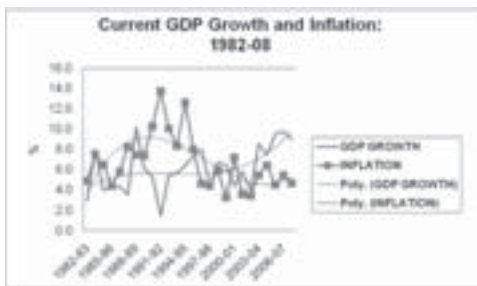
Table 1: Average Growth and Variance

	Pri- mary	Secon- dary	Service	GDP
Average 1981-92	3.3	5.4	6.4	5.0
Average 1992-2008	3.5	7.2	8.4	6.8
Average 1981-2008	3.4	6.5	7.6	6.1
Std Dev 1981-92	5.2	3.0	1.3	2.4
Std Dev 1992-2008	4.0	3.0	1.8	1.9
Std Dev 1981-2008	4.4	3.1	1.8	2.2

Source: Economic Survey, 2008-09

The average annual real GDP growth was 1.8 percentage points higher during the post-reform period (1992-08) over 1981-92. The variability in GDP growth had also come down by half a percentage point. The quadratic trend in Figure 2 clearly shows an upward trend from the late 1990s.²

Figure 2



Let us assume that the effects of the structural reform process on the Indian economy could be realized earliest in 1992-93. During the first 10 years from 1981-82 till 1991-92 and then in the next 16 years till 2007-08, the growth rates of the Primary sector

were remarkably steady: 3.3 and 3.5, respectively. However, that is not the case with the other two sectors. For the Secondary sector, the numbers were 5.4 and 7.2, respectively. In the case of the Service sector, they were 6.4 and 8.4, respectively. Hence, one can safely conclude that the structural reforms and the fiscal measures of the Government of India along with the monetary initiatives of the RBI have significantly improved the growth of the Secondary and the Service sectors. The reforms had hardly any effect on the growth of the Primary sector.

The standard deviation of annual growth rates reveals a different picture.³ During 1981-92, the standard deviations of annual growth rates were as follows: Primary Sector (5.2), Secondary Sector (3.0) and Service Sector (1.3). These numbers during 1992-08 became 4.0, 3.0 and 1.8 respectively. Therefore, the year to year fluctuations in the growth rate of the Primary sector had substantially reduced during the post-reform years although it was still above the other two sectors. The variance in the Secondary sector had not changed at all despite the reforms, and that of the Service sector was the lowest although it had marginally increased in the latter years by half a percentage point.⁴

During the post-reform years the (weekly) average WPI inflation (1993-94=100) was 1.5 percentage points lower. The quadratic trend in the WPI inflation clearly shows a downward trend from the early 1990s. The variability in the inflation rate, however,

remained quite steady during these two time periods (Table 2 and Figure 2).⁵

Table 2: Average WPI Inflation and Variance

Average 1982-08	Average 1982-92	Average 1992-08	Std Dev 1982-08	Std Dev 1982-92	Std Dev 1992-08
6.7%	7.6%	6.1%	2.7	2.7	2.6

Source: Various issues of Economic Survey

Statistical Relationship

Is there any causal relationship from WPI inflation to output growth in India?

This issue can be statistically resolved using a two stage procedure. First, the variables concerned have to be checked for their stationarity property. Once they are found stationary, in the second stage the Granger Causality Test can be conducted. The Dickey-Fuller Test (henceforth DF Test) is used to test the stationarity properties of the variables. Suppose Y is an AR (1) process. Adding a constant term, a time trend t and a white noise error term ε_t with zero mean and constant variance, we shall run the following regression.

$$Y_t = \alpha + \beta t + \gamma Y_{t-1} + \varepsilon_t \quad \dots (1)$$

Under the DF test, the estimated value of γ is tested for a value one. The DF test statistic is

$$d = \frac{\hat{\gamma} - 1}{SE(\hat{\gamma})} \quad \dots (2)$$

The critical values are given in Dickey and Fuller (1979). In our case with a sample range from 23-26, we shall

use -4.38 as the critical value to test whether $\hat{\gamma}$ (estimated value of γ) is statistically different from one at 1% level of significance. If the null hypothesis of one cannot be rejected, the data series will be differenced and the regressions will be re-run until the null ($\gamma = 1$) is rejected.

Table 3: d Values

GDP	WPI Inflation	Primary	Secondary	Service
-4.84	-2.90	-8.83	-3.92	-3.79
	-8.32 (diffe- renced once)		-5.88 (diffe- renced once)	-7.77 (diffe- renced once)

Critical value: -4.38

In Table 3, three variables were found non-stationary: WPI inflation, Secondary sector growth and Service sector growth. They had to be differenced once to obtain stationarity.

Next, we test for Granger causality from WPI inflation to GDP growth, and all three sectoral growths. We ignore the details of these findings to save space except to mention that there was no causal relationship between GDP and all three sectoral growths and WPI inflation. The Granger Causality Test was conducted with the help of the following regression equation.

$$Y_t = \alpha + \beta Y_{t-1} + \gamma X_{t-1} + \delta X_{t-2} + \varepsilon_t \quad \dots (3)$$

Acceptance of the null hypothesis $\gamma = \delta = 0$ imply that X does not Granger cause Y in the sense that

inclusion of X in the regression does not add any significant explanatory power to the right-hand side of the equation over past values of Y. In all our regressions the above null hypothesis with respect to GDP growth and sectoral growth was accepted.

Economic Theory

What does economic theory suggest about possible relationships between output growth and price change?

Prices and output are generally assumed to be endogenously determined in a macroeconomic model. Persistent rise in prices that we call 'inflation' may result from two broad reasons: persistent increase in demand for goods and services and/or persistent shortfall in the supply of goods and services. In a liberalized economic environment one expects firms to produce in a more competitive market with better technologies. Therefore, supply curves are expected to shift out. However, the net effect on prices will depend upon the relative shift in the demand and supply curves.

Demand factors

Demand for goods can increase due to a variety of reasons. First, consumption demand for domestic goods as well as foreign goods is expected to increase through rationalization of various indirect taxes including customs duties. Second, availability of goods improves substantially with the opening up of the economy. Third, increased disposable income with the households due to reduction in direct taxes and rising real

income will shift demand for domestic as well as imported goods. Fourth, private investment affects demand for both factors and goods. There are two competing hypotheses that decide how inflation and investment interact in a country. Present inflation can raise 'inflationary expectations' which in turn lower expected real interest rate provided nominal interest rate does not adjust immediately to hold real interest rate at some pre-determined level. This will act positively on present and future investment activities. On the other hand, current inflation can adversely affect current household demand for goods if households expect future inflation rate to increase. This lack of confidence in household spending can reduce the strength of 'investment accelerators' which says that investment depends positively on the change in sales of firms. Fifth, increased government spending on economic and social infrastructure increases demand for goods and services. Finally, increased export earnings cause demand for a range of goods to go up.

Supply factors

There can be several supply side factors that can affect output and prices in the economy. First, upward wage revisions will compel even competitive industries to raise their prices of products in the short run at least. As Keynesian short run macroeconomic model suggests, nominal wage increases will shift the short run aggregate supply function backwards. In the medium and long run tax cuts and technological improvements can counter these inflationary potentials.

Second, agricultural sector under-performance will accentuate upward pressure on prices of food and raw materials (particularly when the rest of the economy is witnessing reasonable growth, as is the case with our secondary and service sectors – a combination of supply and demand factors accentuate price rise). Third, ongoing moderate amount of inflation in the economy may serve as an incentive to the producers to expect higher profit margins from goods produced today and sold tomorrow at relatively higher prices. (However, as mentioned above under demand factors, very high level of inflation has the potential to lower real income in the economy substantially to shrink domestic demand for goods, in which case firms may feel reluctant to produce more for the future even if their profit margins are expected to increase in the future). Fourth, liberalized licensing system allows more firms to enter an industry, thereby increase competition and shift out the industry supply curve. In monopolistically competitive industries, any price reduction by one firm to gain market share compel other firms to follow suit. Fifth, technological improvements always shift out supply curves thereby put downward pressure on prices. Sixth, improved industrial relations always improve worker productivity that eventually lower product prices although real wages may increase. Finally, infrastructural developments help firms to improve their cost efficiency which result in lower prices or slowing down of their product price increases.

In short, the net effect on prices and

inflation in a country will depend upon the relative strength of the demand and supply factors. If the demand side factors dominate, output increases are accompanied by rising prices and inflation. On the other hand, if the supply side factors dominate, output increases are accompanied by falling inflation rate and even falling prices, as is the case with many durable products in India.

Economic Policy

Let us now look at the inflation and output data from the Indian economy once again. Figure 3 and 4 clearly show there is no indication that either the contemporaneous WPI inflation or one-period lagged inflation and GDP growth have largely moved together or moved in the opposite direction. In some years they have moved in the opposite direction, and in other years they seem to have moved together in the same direction. Therefore, depending upon the relative strength of the demand side vis-à-vis supply side factors, the price movements have been decided accordingly for the Indian economy.

Figure 3

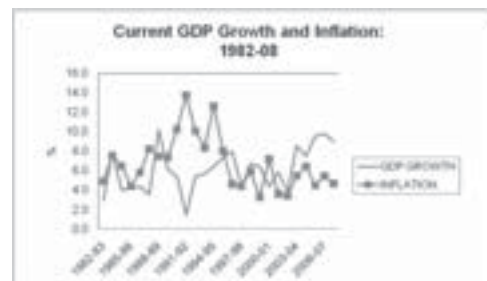


Figure 4



What has been the history of economic policy in India since the Sixth Plan?

The Sixth Plan (1980-85) document clearly stated that India should try to achieve 'self reliance' through increasing role of the public sector in industrial development. At the same time, the Industrial Policy statement of July 1980 focused on promoting competition, technological upgradation and modernization through induction of advanced technology, automatic growth in sectors that had direct linkage with the core sectors and long term export potential, development of R&D Institutions, etc. Some initiatives were also undertaken toward liberalizing licensing policy in a few private initiatives like computers and electronic items and manufacture of telecommunication equipments. Even the exemption limit of assets of MRTP companies was raised from Rs. 20 crores to Rs. 100 crores.

It is said that the Sixth Plan annual growth in GDP above 5% was achieved mainly due to good agricultural performance and rapid growth of the service sector. At the end of the Plan, the major drawbacks of the economy that had been persisting since the Third Plan however remained intact.

To mention a few

- (a) protection from foreign competition and severe curtailment of domestic competition allowed Indian industries to neglect efficiency, cost and quality;
- (b) in many industries (consumer goods and producer goods) high factor prices, inferior quality of inputs, power shortage and inadequate demand did not allow them to achieve target output levels;
- (c) prolonged labour unrest remained a persisting problem for industries;
- (d) public sector projects continued to experience cost and time overruns and obsolescence of technology; and
- (e) world recession did not allow exports to grow at anticipated rates.

Did the Seventh Plan overcome some of these shortcomings?

The Seventh Plan objectives were growth in food grains, increase employment opportunities and increase productivity. Industrial policy shifted away from massive investments in new facilities to capacity and productivity enhancing improvements in existing facilities. Industry was asked to restructure towards high technology, high value added and knowledge-based industries like electronics and telecommunications. Private sector was encouraged to develop 'sunrise' industries, such as telecommunications, computers, microelectronics etc. Power sector also received extra attention.

Annual average GDP growth of over 5% and average IIP growth of 8.5% per annum during the Seventh Plan were primarily attributed to

- (i) improved performance of infrastructure industries like power, coal etc;
- (ii) liberalized licensing procedures;
- (iii) import of technology and capital goods; and
- (iv) better utilization of installed capacities.

Among other achievements, shareholding of several PSEs were offered to mutual funds, financial institutions, general public and workers to enhance their accountability and operational efficiency. A large number of PSEs established their in-house R&D facilities.

Disaster struck at the end of the Seventh Plan in the form of domestic political uncertainties, government overspending that resulted in shipping of gold to Bank of England to meet external payment obligations, and sharp rise in oil price due to the Gulf War.

What were so unique about the structural reform process that began in the 1990s?

The Industrial Policy of July 1991 focused on 5 areas:

- Industrial licensing
- Foreign investment
- Foreign technology
- Public sector reforms
- MRTP Act

The measures included abolition

of compulsory licensing in many industries, FDI was allowed up to 51% in high priority industries, automatic permission for foreign technology agreements in high priority industries, automatic clearance for import licenses, many goods became freely importable with foreign exchange from the market, no prior permission for hiring foreign technicians, opening up of reserved areas to the private sector including infrastructure industries, greater disinvestment in several PSEs and several amendments in the MRTP Act which allowed MRTP companies to freely expand, takeover, merge etc.

In addition, several fiscal and monetary measures were also undertaken. For instance, drastic reductions in customs duties, rationalization of excise duties, tax holiday for some industries like solar energy, reduction of CRR, SLR and minimum lending rates of banks, reduction in corporate tax and personal income tax, were some of them.

Thus, the so called structural reforms initiated a very big leap forward to the forward looking liberalized policies of the Sixth and the Seventh Plans. These reforms were important not because all of them were initiated for the first time in India, but they were grouped in a package that surpassed both in quantum and quality any measures that were initiated earlier. The comprehensive nature of these reforms proved to be very effective in promoting high GDP growth and controlling inflation in India in the years that followed.

These reforms were later supplemented

by a set of Second Generation Reforms in the next two Plans: the Ninth and the Tenth Plan. For instance, in the Ninth Plan the licensing reforms were extended to many more industries, more disinvestment of PSEs followed, 100% FDI approvals were handed over to foreign companies even in infrastructure industries like oil refining and power, further rationalization of excise duties were achieved, CRR and bank rate were again lowered and so on.

Thus, one can conclude the following. First, the bulk of the policies since the Sixth Plan and particularly since July 1991 had focused on improving the supply side of the economy by creating more opportunities for companies to grow in an enhanced competitive environment. Second, they were supplemented by some demand side policies like reduction in personal income tax, rationalization of indirect taxes like sales tax and custom duties, enhanced credit availability, greater investment opportunities for the private sector, and so on that had shifted the demand curves also to the right. These supply and demand shifts had not only achieved steady GDP growth, at the same time inflationary potentials were kept under check with a downward trend in WPI inflation.

V. Conclusion

Neither the data nor the statistical tests could demonstrate any linear effect of WPI inflation on Indian growth patterns since the early 1980s. In the context of a macroeconomic model, output increases

can be accompanied by either rising prices or falling prices, depending upon the relative strengths of the demand and supply shifts in the economy in any given time period. The structural reforms had unambiguously established upward trend in output growth and downward trend in WPI inflation.

Finally, a few words of caution before we close our discussion. One needs to check whether GDP growth and the sectoral growths in the Indian economy have followed any *nonlinear* relationship with WPI inflation. This paper has not attempted any such investigations except for obtaining the cubic trend paths of GDP growth and inflation. Second, the structural reforms have undoubtedly benefitted the Service sector and to some extent also the Secondary sector. Unless, the Primary sector, in particular the Agricultural sector manages to keep up with the other two sectors, food shortages and rising food prices will deprive a large section of the society of the real gains of our GDP growth. Inflation to this section of the people is revealed through CPI instead of WPI. The cost of living index measured in terms of CPI is more relevant to the common people than WPI that the organized sector of the economy and the government is so obsessed with. Therefore, an important issue that remains to be investigated is whether there exists any important relationship between GDP growth and CPI inflation. There are various measures of CPI in India. One will have to select a specific CPI to study how that has

behaved in relation to our GDP growth and sectoral growths across different time periods.

Notes

1. We discuss structural reforms later in the paper.
2. The only year during 1981-2008 when the annual GDP growth touched double digit figure (10.2%) was in 1988-89.
The polynomial trend of GDP growth has $R^2 = 0.312$ and that of the WPI inflation has $R^2 = 0.437$.

3. Standard deviation is measured as $\sqrt{\frac{\sum(x-\bar{x})^2}{n-1}}$.
4. I have a suspicion that in our modern times, the Service sector is most susceptible to business cycles than any other sector. The recent recession has also affected the Secondary sector, and there is hope now that its revival is signaling end of the recession.
5. The weightage of items under WPI (1993-94=100) are as follows: Primary articles (22.03%), Fuel etc (14.23%) and Manufactured products (63.75%). Manufactured Food products account for 11.54%.



"E-Information Service"

Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies

The "E-Information Service" provided by the Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies disseminate useful information affecting business and commerce in India. The information contains important Govt. Notifications and Circulars on Banking, Taxation, International Trade, Labour Laws and Shipping as issued by the respective Departments of the Government of India, State Government and Ministries.

Any interested organisation including non-members of the Chamber can subscribe to the service on application and payment of prescribed fees. For further information please click the link below:

http://www.bombaychamber.com / services_offered.aspx

Priority Sector Financing in India: Past, Present and Future

Ram Pratap Sinha*

Abstract

In the post-world war II period, most of the less developed countries adopted a policy of financial repression involving substantial government intervention in the financial markets. In particular, countries like Japan and South Korea achieved considerable success with their policy of government intervention in financial systems. Directed allocation of resources and control on lending and deposit rates were essential ingredients of such policy. In the Indian context, the pattern of priority sector lending has, however, undergone major changes during the past few decades because of changes in regulatory stance. The banking sector in India is facing the dilemma of widening access of the less privileged sector to financial resources on the one hand and maintaining profitability and meeting prudential regulatory norms of the market regulator on the other.

Introduction

Economic development of a nation requires rapid and sustained increase in the real output over a reasonable period of time. It is well recognised that the key to this process is an appreciable rise in the saving-income

ratio of the relative economy. Rostow, (1960), pointed out that one of the pre-conditions of the take off into self sustained growth is to increase the saving and investment ratio from 5-7% of national income to at least 10% of national income. Lewis (1959), had put forward similar arguments. This, however, requires mobilisation of financial resources by the financial institutions on a reasonably high scale.

Unfortunately, in the aftermath of the second world war, the developing economies inherited financial systems which were not conducive to the mobilisation of resources to the desired extent. This was perhaps one of the major reason for the adoption of substantial government intervention in the financial markets. In particular, countries like Japan and South Korea achieved considerable success with their policy of government intervention in financial systems. Directed allocation of resources and control on lending and deposit rates were essential ingredients of such policy.

The Rationale For Priority Sector Lending

There are several reasons why the developing countries opted for directed lending (to priority sectors) and

* Ram Pratap Sinha is Associate Professor of Economics, Government College of Engineering and Leather Technology, Kolkata. He can be reached at rp1153@rediffmail.com

interest rate controls for acceleration of their growth process. Broadly speaking, the following arguments can be cited in favour of financial repression:

- (a) The developing country financial markets are characterised by market failures. Thus deserving borrowers (in the absence of government intervention) fail to attract resources. Allocation of financial resources to them on a privileged basis (and at less than market clearing rates) would promote economic growth.
- (b) The existence of directed lending also facilitates mobilisation of resources for the public sector.
- (c) The financial system including the intermediaries require strict regulation. The existence of directed lending enable the monetary authorities to maintain a stringent control on the money supply.

Directed Lending-Industry vs Agriculture

Calomiris and Himmelberg (1993) examined the impacts of directed lending programmes to agriculture and industry both from theoretical and empirical standpoints. They pointed out that the motives behind government programmes to provide directed credit to agriculture and industry can be traced to problems of asymmetric information in capital markets leading to rationing and mispricing of credit under the free market system.

In the agricultural sector, farmers may have to approach non-institutional sources of financing in the absence of state support. The exorbitant rates of interest charged by the village moneylenders are likely to create repayment problem for the farmers leading ultimately to debt traps. Thus directed credit programmes that help farmers accumulate sufficient wealth to own the land they cultivate are essentially welfare enhancing.

However, while evaluating the directed credit programmes in agriculture, one needs to take into consideration the social costs of such programmes as well. In particular, the distribution of funds has been motivated by political rather than economic goals. The directed credit programmes are usually associated with high rates of default and misallocation of resources. Such policies may also destabilize local land markets and thus make farm ownership even more difficult for worthy borrowers who are denied access to such credit facilities. In this context, Calomiris and Himmelberg (1993) argued that for increasing the efficiency of government credit support to agriculture, it is essential to develop local incentive structure for peer screening and monitoring of borrowers. The successes achieved by Thailand and Bangladesh in this matter are particularly notable.

In the industrial sector, the benefits of government credit may include product and factor market externalities as well as the direct benefits from relaxing borrowing constraints. In the post-second world war period, countries

like Japan and South Korea obtained substantial benefits from directed credit to the industrial sector. In Japan, the Japan Export-Import Bank and the Japan Development Bank were the two most important vehicles for providing credit assistance to industry. The industrial assistance programmes, were, however, so designed as to facilitate the market economy. As such, the directed credit system was utilized to expand the emerging sector and to shrink the declining industries. In South Korea also credit was not allocated on the basis of market criteria but discretionary judgement of government bureaucrats. However, the government controlled financial system mimicked a free market allocation of resources and contrary to expectations, directed allocation of resources did not lead to efficiency losses.

These two examples do not constitute a blanket endorsement of government interventions in industrial credit markets. In many cases, government interventions have generated large costs through the funding of inefficient industrial borrowers and the crowding out of private credit intermediaries. But then the divergence in cross country evidence emerges due to the heterogeneity in the institutional mechanisms through which policy objectives are translated into directed credit programmes.

Institutional Lending to the Priority Sector: the Indian Experience

Fisher and Shriram (2002) identified three distinct phases in the

development initiatives in India through the supply of credit to the less privileged sector of the economy:

The first phase started in 1935 with the establishment of the Agricultural Department of the Reserve Bank of India .During this phase developmental initiatives focused primarily on the cooperatives as the chosen vehicles of change. This phase culminated in the sixties.

The second phase was visible with the adoption of a new credit policy by RBI in 1967-68 (which contained a formal statement of the need to ensure flow of credit to the priority sectors of the economy including agriculture, exports and small scale enterprises). This coincided with the nationalisation of 14 commercial banks in July 1969 and the introduction of Lead Bank Scheme thereby starting a process of district credit plans and coordination among financial intermediaries. In 1980-81 the government introduced the Integrated Rural Development Programme (IRDP) to provide disbursed to pro-poor self employed

The policy of mass banking initiated during the phase had a significant impact on the supply of rural credit:the proportion of rural credit supply from the commercial banks and cooperatives increased from 29.2 per cent in 1971 to 61.2 per cent in 1981 which however slipped to 56.6 per cent in 1991. However,the incidence of overdue / default has been higher in respect of directed credit. The statistics released by the RBI revealed the following:

- a) In 1992 directed credit accounted for 35 percent of lending but 55 percent of overdues.
- b) In respect of small scale industries 17 percent of bank credit was locked up in sick units in 1990. The comparable figure for large scale and medium sized industries has been 12 percent.
- c) In respect of agriculture the ratio of loan recovery to loan demand in 1992 was only 53.3 percent.

The above figures indicate that priority sector lending has been one of the major reasons for declining bank profitability. The problem has been more acute in respect of the Regional Rural Banking Sector (RRBS). The total interest income loss on account of priority sector lending for the public sector banks increased from Rs.34.13 crores in 1974 to Rs.973.25 crores in 1990-91.

The third phase commenced after the financial crisis of the 1990s which led to the adoption of prudential regulations in the banking sector. During this phase the system directed credit has been reviewed by the Committee on Financial System (CFS-1991) and the Committee on Banking Sector Reform (CBSR, 1998). The CFS (1991) advocated in favour of gradual phasing out of directed credit programmes. While the committee recognised the need to provide special credit support to the priority sector for the time being, it favoured modification in the definition of the priority sector, reduction in the quota and gradual phasing out of the concessional rate of interest. The system of directed

credit was again reviewed by the Committee on Banking Sector Reform (1998). The committee recognised that the small & medium farmers & the tiny sector of industry and small business have problems with regard to obtaining credit and some earmarking may be necessary for this sector. The committee thus opined that the current practice may continue.

During the third phase the commercial banks and the Regional Rural Banks were restructured and interest rates were decontrolled (consequent on the recommendation of the R V Gupta Committee). The government also took a slew of measures for the supply of credit to the priority sector. Inter alia, these included consolidation of the self employment programmes into Swarna Jayanti Swarozgar Yojana (SJSY), the introduction of Local Area Banks (in 1996) catering to three contiguous districts modeled on similar banks in Indonesia and the introduction of autonomous Mutually Aided Cooperated Societies (MACS) by various states.

The Quantum of Priority Sector Financing: The Priority Sector Lending Quota

In July 1968, the National Credit Council decided that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries. The description of the priority sectors was, however, formalised only in 1972 on the basis of the report submitted by the Informal Study Group on Statistics

relating to advances to the Priority Sectors set up by the Reserve Bank in May 1971. Initially, no specific targets were fixed regarding priority sector lending. In November 1974, however, the banks were advised to increase the share of the priority sectors in their aggregate advances to the level of 33.33 per cent by March 1979. Subsequently, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of aggregate bank advances by 1985. Sub-targets were also

specified for lending to agriculture and the weaker sections within the priority sector. Since then, there have been several changes in the scope of priority sector lending and the targets and sub-targets applicable to various bank groups (Table 1).

Growth in Priority Sector Advances

During the pre-reform phase there has been a secular upward movement

Table 1: Priority Sector Lending Quota in India

Particulars	Target For Domestic commercial banks	Target For Foreign banks
Overall Priority Sector Advances	40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	32 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Total Agricultural Advances	18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	Not Applicable
Small Enterprises Advances	Advances to small enterprises sector will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Micro Enterprises Within Small Enterprises Sector	(i) 40 per cent of total advances to small enterprises to be allocated to micro (manufacturing) enterprises (investment in plant and machinery up to Rs 5 lakh) and micro (service) enterprises (investment in equipment up to Rs. 2 lakh); (ii) 20 per cent of total advances to small enterprises to be allocated to micro (manufacturing) enterprises with investment in plant and machinery above Rs 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh. (Thus, 60 per cent of small enterprises advances should go to the micro enterprises).	Same as for domestic banks.
Export Credit	Export credit is not a part of priority sector for domestic commercial banks.	12 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

Source: RBI(2005): Draft Technical Paper by the Internal Working Group on Priority Sector Lending, September 2005, www.rbi.org.in.

in the proportion of priority sector advances to total bank credit. Table 2 provides the details regarding the share of priority sector advances in bank credit for the period 1969-91. However, there has been a significant deterioration in the quality of priority sector asset quality during the period.

The General Economic Impact Of Priority Sector Lending in The Pre-Reform Era

The economic impact of directed credit can be judged from several stand points:

(a) Impact of Priority Sector Lending on Sectoral Growth:

It is not very easy assess the impact of priority sector lending on sectoral growth including growth in output, input use and employment. This is because collection of statistical data in this respect is extremely difficult. However, there are at least two econometric investigations which sought to assess the impact of directed credit on sectoral growth in quantitative terms.

The econometric investigation of Binswanger and Khandekar (1995) is

regarding the impact of formal finance on the Indian rural economy. As per their investigation, the expansion of the rural financial system did have substantial effect on non-farm employment and output. However, the impact of directed credit on agricultural output was rather modest and the impact on farm employment negligible. Nevertheless, the increased flow of formal finance promoted consumption of agricultural inputs significantly and also facilitated fixed capital investments in the agricultural sector. Thus the overall impact of directed lending on the rural sectoral growth was on the positive side.

The impact of directed institutional credit on the small corporate sector was examined by Kohli (1997). For this, they considered firm level data for the period 1965-78.

(i) The change in banking sector attitude towards the small scale sector following bank nationalisation resulted in a more even distribution of bank credit across the firms. The policy of mass banking also encouraged the entry of small borrowers in the credit market.

Table 2: Advances To The Priority Sector as a Proportion of Total Bank Credit: :1969-91 (Figures in Rs. Crores)

Sector	June 1969	Dec. 1976	Dec. 1980	Dec. 1985	June 1991
Agriculture	5.3	10.1	15.6	18.3	16.0
Small Scale Industrial Units	8.6	13.0	16.5	19.5	15.8
Other Priority Sector	0.7	2.6	3.8	5.0	8.2
Priority Sector Adv / Total Adv.	14.6	25.7	35.9	42.8	40

Source: Various RBI Documents

(ii) For several types of small scale industries, increases in the flow of bank credit resulted in faster growth rate for the respective industries. The industries included, among others, electrical machinery & pharmaceutical sector which grew relatively faster during the period under consideration.

(b) Impact of Priority Sector Lending on The Distribution of Income and Wealth

A significant part of the institutional credit went to the rural sector under various poverty alleviation programmes for the creation of assets by the rural poor. Empirical evidences regarding such programmes can give an idea about the efficacy of directed credits in generating adequate income and wealth for the poorer section of the society (The Concurrent Evaluation of IRDP, 1996, Joshi and Little 1997).

The important findings of the studies conducted to evaluate the efficacy of such programmes are as follows:

- (i) The targeting of credit programmes had been poor; only 3.9 percent of the IRDP beneficiaries received training under TRYSEM and as much as 47.2 percent of the TRYSEM trained beneficiaries could not undertake economic activities. In many cases poor households were excluded but rich households were included.
- (ii) Utilisation of credit has not been satisfactory. In many cases assets acquired by the house holds by virtue of IRDP loans were of

poor quality. In many other cases loans were used for meeting consumption requirements.

- (iii) The income generated by IRDP is insecure and risky and poor households do not have the required debt repayment capacity. Consequently, IRDP borrowing resulted in higher level of indebtedness among the poor households.
- (iv) The recovery performance under IRDP has been extremely poor. One of the major cause of poor recovery has been wilful default by the borrowers expecting loan waiver by the government.
- (v) On equity grounds also the IRDP credit programmes failed. The survey conducted by the Agricultural Credit Review Committee (1989) showed that the poorest house holds (assets less than Rs.1000) met only 9 percent of their credit requirements from institutional sources. Most of the rural credit were obtained by medium and large farmers. The study also revealed that only 30 percent of the rural families had access to institutional credit.
- (vi) The lack of inter agency coordination was found to have a major role in the poor performance of IRDP credit programme.

Priority Sector Lending in The Reform Era

During the reform years progressive tightening of the asset classification,

provisioning and capital adequacy norms have resulted in a relative neglect of the priority sector by the Indian commercial banks (Table 3). Further, the flow of credit to the conventional segments of the priority sector has probably declined during the period with a progressive widening of the definition of the priority sector (Shajahan 1998, 1999). However, during the reform period the Indian commercial banks have successfully tackled the priority sector Non

Performing Assets (NPA) problem (Table 3).

The Composition of Priority Sector Lending

In order to understand about the nature of credit flow to the different sub-sectors under the priority sector, Tables are presented below (Tables 4, 5 & 6) which correspond to the public, private and foreign banks.

Table 3: Priority Sector Advances and Priority Sector NPA of Public Sector Commercial Banks (1996-97 to 2004-05) (Rs. in Crores)

Particulars	1996-97	1998-99	2000-01	2002-03	2004-05
Total Priority Sector Advances	79131	107200	146596	176264	294216
Priority Sector Advances as a % of Gross Advances	32.4	32.9	33.2	30.5	34.4
Priority Sector NPA	20774	22606	24159	24939	23397
Priority Sector NPA Ratio(%)	26.25	21.09	16.48	14.15	7.95

Source: RBI: Statistical Tables Relating to Banks in India, various years.

Table 4: Advances to the Priority Sectors by Public Sector Banks (amount outstanding in Rs. in Crore)

Particulars	June 1969	March 2006	March 2007	March 2008	March 2009
Direct Agricultural Advances	40	112126	202614	177259	215643
Indirect Agricultural Advances	122	43093	58242	72138	82569
Small Scale Sector	257	82434	102550	151137	191307
Other Priority Sector Advances	22	163756	206661	209842	230507
Of which					
(i) Retail Trade	N.A.	N.A.	N.A.	40519	43061
(ii) Micro Credit	N.A.	N.A.	N.A.	2707	3943
Bank Net Credit	N.A.	N.A.	N.A.	19748	26913
(iv) Housing	N.A.	N.A.	N.A.	146868	156590
Total Priority Sector Advances	441	409748	521376	610450	720083

Source: RBI(2009): Trend and Progress of Banking in India, 2008-09.

Table 5: Advances to the Priority Sectors by Private Sector Banks (Rs. in Crores)

Particulars	March 2007	March 2008	March 2009
Agricultural Advances	52034	58567	76062
Small Scale Sector	13136	46912	47916
Other Priority Sector Advances	76919	58589	66059
Of which			
(i) Retail Trade	N.A.	8037	7325
(ii) Micro Credit	N.A.	2494	4612
(iii) Education	N.A.	509	797
(iv) Housing	N.A.	47516	53463
Total Priority Sector Advances	144549	164068	190027

Source: RBI(2009): *Trend and Progress of Banking in India, 2008-09.*

Table 6: Advances to the Priority Sectors by Foreign Banks (Rs. in Crores)

Particulars	March 2007	March 2008	March 2009
Export Credit	20711	28954	31511
Small Scale Sector	11637	15489	18138
Others	5483	5811	5834
Priority Sector Advances	37831	50254	55483

Source: RBI(2009): *Trend and Progress of Banking in India, 2008-09.*

Priority Sector Lending for the Development of Rural Infrastructure

In 1995-96, the Central Government launched the Rural Infrastructure Development Fund (RIDF) with an initial corpus of Rs 2000 crores with contributions from both public and private sector banks. The RIDF was created with the twin objectives of infrastructure development in the rural areas and assisting commercial banks to meet their priority sector targets (Rajeev, 2008).

Priority Sector Non Performing Assets (NPA): The Relative Contributions of Different Sub-Sectors

Table 7 provides information relating

to the relative contribution of different sub-sectors in priority sector NPA for end March 2009. The Table indicates that the problem is mostly concentrated in the public sector banks as they have to primarily shoulder the responsibility to provide access to financial resources to the vulnerable section of the society.

Priority Sector Lending in India: The Challenges

(a) Shortfalls

In the reform period while the flow of credit to the priority sector has increased significantly, credit disbursement to the agricultural sector and weaker section in the recent years is characterized by shortfalls. Table 8 presents the target achievement status attained by the public and private sector banks as in

Table 7: Composition of Priority Sector NPA (2009)

(Rs. in Crores)

Bank Group	Agriculture	Small Scale Industries	Others	Total Priority Sector NPA	Total NPA
Public Sector Banks	5708	6984	11626	24318	44042
Private Sector Banks	1441	670	1529	3640	16887
Foreign Banks	-	220	429	649	7155

Source: RBI(2009): *Trend and Progress of Banking in India, 2008-09*

March 2009. The Table shows that 46% of the public sector banks and 63% of the private sector banks fell short of meeting the agricultural sector sub-quota. In case of the weaker section sub-quota, the relative figures are 43% and 82% respectively.

(b) Relatively High Default Rate

In spite of the improvement in asset quality in the priority sector, the sector is characterized by relatively high NPA ratio. For the public sector banks, priority sector advances contributed 55% of the total NPA while priority sector advances contributed only 42% of the net bank credit.

(c) Dilution of Primary Objective

In the post-reform phase the number of segments qualifying as priority sector has increased significantly. The dilution was necessitated by the lack of lending opportunities available to the commercial banks in the context of

the then existing lending norms. The Committee on Financial Sector Reforms (2009) noted with great concern that "Dilution in priority sector norms also contributed to a reduced focus on underserved segments. The bulk of increase in credit to agriculture was accounted for by increase in indirect finance to agriculture, which includes activities that can be considered commercially viable".

(d) Implications of Basel II

The introduction of Basel II capital adequacy norm is likely to have significant impact on priority sector lending. Inter alia, the new capital adequacy framework has paved the way for internal assessment of credit risk by the commercial banks and has enhanced the penalty for poor quality lending in an unprecedented manner. This can have serious macro economic consequences. Nachane, Ghosh and Ray(2006) had argued in terms of a

Table 8: Achievement of Priority Sector Targets (2009)

Bank Group	Agriculture	Weaker Sections	Overall
Public Sector Banks			
Exhibiting a Shortfall	13 (28)	12(28)	3(28)
Private Sector Banks			
Exhibiting a Shortfall	14 (22)	18 (22)	14 (22)

Source: RBI(2009): *Trend and Progress of Banking in India, 2008-09*.

theoretical model (which has been subjected to empirical testing on the basis of Indian commercial banking sector data for the period 1996-2004) that the revised capital accord will result in asymmetric differences in the efficacy of monetary policy in bank lending. In particular, the revised accord could pose serious challenge for the monetary authorities if their goal is to simultaneously provide credit to the economy and manage interest rates.

Reference

1. Binswanger, H. & Khandekar, S. (1995): The impact of formal finance on rural economy of India, *Journal of Development Studies*, 32(2), 234–265.
2. Calomiris C.W & C.P. Himmelberg (1993) : ‘Directed Credit Programs For Agriculture & Industry - Arguments from Theory & Fact’ in ‘Proceedings of the Annual Bank Conference on Development Economics’, World Bank, Washington D.C.
3. Committee on Financial Sector Reforms (2009) : A Hundred Small Steps-Report of the Committee on Financial Sector Reforms, Sage Publications, New Delhi.
4. Fisher Thomas and M.S. Shriram(2002): ‘Beyond Micro-Credit: Putting Development Back in to Micro-Finance’, Vistaar Publications, New Delhi.
5. Joshi V and I.M.D. Little (1997): *India’s Economic Reforms : 1991-2001*, Oxford University Press, New Delhi.
6. Kohli Renu (1997): Directed Credit and Financial Reform, *Economic and Political Weekly*, October 18.
7. Lewis W.A.(1959): *The Theory of Economic Growth*, London.
8. Nachane D.M., Saibal Ghosh and Partha Ray(2006): Basel II and Bank Lending Behaviour: Some Likely Implications For Monetary Policy, *Economic and Political Weekly*, Vol XLI, No 11, March 18.
9. Rajeev Meenakshi (2008): Rural Infrastructure Development Fund: Need For A Track Change, Working Paper No- 195, Institute of Social and Economic Change, Nagarbhavi, Bangalore.
10. Rostow W.W. (1960): *The Stages of Economic Growth*, Cambridge.
11. Reserve Bank of India (2005): Draft Technical Paper by the Internal Working Group on Priority Sector Lending, September 2005, www.rbi.org.in.
12. Reserve Bank of India: Statistical Tables Relating to Banks in India, various years, www.rbi.org.in.
14. Reserve Bank of India :Trend and Progress of Banking in India, various years, www.rbi.org.in.
15. Reserve Bank of India (1998): Report of the Committee on Banking Sector Reforms, RBI, Mumbai.
16. Reserve Bank of India (1991): ‘Report of the Committee to Review the Working of the Financial System’, RBI, Mumbai.
17. Shajahan, K.M. (1999): Priority Sector Lending: How useful?, *Economic and Political Weekly*, December 18, pp 3572-74
18. Shajahan K.M.(1998): Non Performing Assets of Banks: Have They Really Declined? And on Whose Account?, *Economic and Political Weekly*, March 21, pp 671-74.



Non Banking Finance Companies – Time to Introspect!

Naresh Makhijani*

Abstract

Over the last few years the Non Banking Finance Companies (NBFC) sector has gained significant advantages over the banking system in supplying credit under-served and un-banked areas given their reach and niche business model. However, off late the Reserve Bank of India has introduced and suggested various changes in the existing regulatory norms governing NBFCs with a view to bring NBFCs regulations at par with the banks. The ongoing and proposed regulatory changes for the NBFCs in terms of increased capital adequacy, tougher provision norms, removal from priority sector status and changes in securitization guidelines could bring down the profitability and growth of the NBFC sector. NBFCs will need to introspect and rethink their business models as they will now not only have to combat stringent regulatory norms but also have to face the challenge of rising cost of funds, scare capital and direct competition from banks.

Introduction

The NBFC sector in India has undergone much transformation over the past decade and created its own niche in supplying credit to retail customers in the relatively under-served and un-banked areas. In fact, the sector is playing an active and complementary

role to the banking system by driving the agenda of financial inclusion and diversification of the financial sector.

Off late, but, many questions have been raised around the regulatory imperatives concerning the NBFC sector and the risks arising from regulatory gaps, arbitrage and systemic inter-connectedness. This has called for increased regulatory attention and the Reserve Bank of India (RBI) has issued specific regulations concerning NBFCs at regular intervals meant to strengthen this segment. The major thrust of the proposed changes is to bridge the regulatory arbitrage between banks and NBFCs by bringing NBFCs' regulations at par with the banks.

The ongoing and proposed regulatory changes for NBFCs in terms of increased capital adequacy, tougher provision norms, removal from priority sector status and changes in securitization guidelines could not only have far-reaching changes to the existing regulatory and supervisory framework of NBFCs, but also on viability and profitability of the NBFCs business model. We have tried to examine some of major implications arising out of recently and ongoing regulatory changes proposed by the RBI.

The Analysis

In August 2011, the Usha Thorat Committee Report on guidelines on

* Naresh Makhijani is Partner at KPMG. He can be reached at nareshmakhijani@kpmg.com

NBFCs proposed to increase the Tier-1 capital to 12% from 7.5% at present in a phased manner over the next three years. Earlier, in Feb 2011 the RBI increased the capital adequacy requirement for all NBFCs from 12% to 15% by March 2012. Moreover, there could be a possible regulatory change in terms of higher capital requirement on assets assigned by NBFCs to banks. These measures, if implemented, will increase the equity capital need for NBFCs and, hence, bring down the sustainable leverage on the balance sheets of the NBFCs.

The Committee also proposes recognition and provisioning norms for standard assets and non-performing assets (NPA) for NBFCs to be brought at par with banks in a phased manner. The proposed changes in NPA recognition and provisioning norms (moving from 180 days to 90 days) are likely to increase the provisioning costs for NBFCs. This will inherently affect the profitability and return ratios of the NBFCs more from an accounting perspective. Given that fact that a lender's Tier-1 capital is based on accounting profits rather than cash flows, the change in accounting profit will directly impact the capital adequacy levels of NBFCs. This in turn will also call for higher equity infusion.

Over the last few years the banking sector found it easier to fulfill their priority sector obligations through NBFCs, given the fact that the NBFC sector has grown faster than the banking system. But, in a series of measures over the past year, the RBI has changed the guidelines related to priority sector lending and has removed bank loans to

gold loan NBFCs in any form (including buying portfolio from NBFCs) from priority sector in Feb 2011; also removed bank loans to all NBFCs from priority sector in May'11 except microfinance NBFCs (but capped interest rates charged by microfinance NBFCs). The RBI has also set up a committee in Aug'11 which apart from redefining priority sector will also decide whether indirect lending through NBFCs should be part of priority sector or not. This has not only increased the cost of funds for NBFCs but has also made availability of funds relatively difficult for NBFCs, especially as they are not allowed to access public deposits as the banks do.

More recently, the RBI's revised draft guidelines on securitization requires NBFCs to keep loans on their books for six months (instead of three to four months currently) if the installment is made monthly or 12 months if the installments are quarterly or less frequent. The guideline also recommends first loss cover provided plus loans retained by the originator (NBFCs) to be 10% of the total loan portfolio. This means that the portfolio available for securitization by the NBFCs would shrink to some extent, leading to drying up of the source of priority loans for the NBFC sector.

The RBI's proposition of NBFCs converting into banks or forming a new bank, if pursued by any of the eligible NBFC will help it to enjoy the benefits of lower cost of funds but the cost of higher employee expenses, the capex in opening branches, the system up-gradation expenses would be all front loaded. Moreover, for transferring existing NBFC businesses under the new bank and

prior regulatory approval for any change in ownership of NBFC is expected to create complex issues especially while restructuring businesses.

In addition, the committee has suggested that for an NBFC to be eligible for registration and supervision, it will need total assets of all NBFCs in a group to be INR100 crore and above. The proposed rules around registration and supervision norms will also not make life difficult for vast number of existing NBFCs that have assets less than INR 50 crore, as they will be fit for deregistration if the Committee's recommendations are accepted

On the positive side, it is proposed that NBFCs should be given the benefit of the SARFAESI Act, 2002. This we believe would made possession and sale of delinquent assets easier for NBFCs.

The impact of all these new and proposed regulations on reported profitability and, hence, capital adequacy of the NBFC sector, is expected to significantly change the way NBFCs conduct their business. NBFCs could be more cautious in the lending businesses that do not have a set pattern for cash flows, especially segments like fleet owners and truck operators. NBFCs will also be required to beef up and/or change their recovery and collection processes along with building robust reporting and compliance requirements. This will lead to increase in operational costs for various NBFCs and decline in lending to high yield assets.

Conclusion

Thus, the proposed capital regulations and other regulatory measures would

definitely help towards the improved functioning of the NBFC sector from the systemic risk perspective in the long term, but what needs to be considered is the complementary role and niche focus of the NBFCs compared to the banks in the country's overall financial system. The NBFC sector has played a major role in filling the important gap of supplying credit to the retail customers in rural and semi-urban areas and relatively under – served segments like small town truck operators, equipment and tractor financing etc., whereas commercial banks have largely focused on funding the needs of large corporates and retail credit. Today, the NBFCs have built sound capabilities around underwriting norms, penetrative market knowledge, cost-effective operations and highly personalized good quality customer service.

To conclude, for NBFCs it's also a time to introspect and re-think their strategy on how they could sustain or evolve their existing business models both from a viability and regulatory prespective.

References:

1. RBI's Draft Revised Guidelines on Securitisation Transactions dated 27th September 2011.
2. Report of the Working Group on the Issues and Concerns in the NBFC Sector dated 29th August 2011.
3. RBI's Draft Guidelines for Licensing of New Banks in the Private Sector dated 29th August 2011.
4. www.rbi.org.in





Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies

The Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies was constituted in 1996 by the Bombay Chamber of Commerce and Industry to undertake independent research activities on various economic and management issues and for providing analytical views on macro-economic scenario, industrial performance and other issues of topical interest.

The Trust started publishing the quarterly magazine 'AnalytiQue' for the quarter October-December in the year of 1999 to serve as an effective vehicle of communication between the government, industry, economists, thinkers, management consultants and scholars. In its short journey the magazine had some trying spells and after the issue of January-March, 2006 there has been no issue. However, after four years, the Trust published the next issue as Journal in March, 2010. While retaining its basic purpose and character, AnalytiQue now continues to serve members, who are drawn mainly from the world of business and commerce and deals with contemporary economic issues while documenting some of the important developments of the Indian economy.

Bombay Chamber of Commerce & Industry Trust for Economic and Management Studies

Mackinnon Mackenzie Building, Ballard Estate, Mumbai 400 001

Tel: 91-22-4910 0200

Email: analytique@bombaychamber.com



“E - Information Service”

The “E - Information Service” is provided through an online newsletter called ‘E - weekly’ to disseminate useful information on business and commerce in India and International countries. This service is provided to both the members of Bombay Chamber as well as non-members. The information contains notifications, circulars and reports issued by respective Department on:

- Banking & Taxation
- Customs & Central Excise
- D. A. circulars, Industrial Relation and Labour Laws
- Selected Statistical Data
- International Trade Information through Economic and Commercial Reports
- World Bank news on Loan and Credit Summary
- Shipping

For Further information on prescribed fees and registration please refer the link below:

http://www.bombaychamber.com/Uploads/Document/104/E-info_Form.pdf