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Foreign Direct Investment, Exports and Economic Activity in India and China: An Empirical Analysis of Long Run Relationship through VAR Model

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Abstract—Over the past few decades, the emerging market countries especially China and India have become the most favored destinations for FDI and investor confidence in these countries has soared and exports have grown much faster than GDP. In different studies, several factors appear to have contributed to growth phenomenon including FDI. However, as yet there has not been any attempt to investigate the long run relationship of FDI, real export and real economic activity (real GDP) for India and China. This paper aims to analyze the long run relationship among FDI, real exports and real economic activity (Real GDP) and to compare the growth performance of FDI, exports and economic activity between India and China. This empirical study has applied on VAR model to examine the effect of FDI inflow and real exports on real economic activity (Real GDP), the impact of real GDP growth as the common factor that drives growth on other variables such as exports and FDI and to assess of the effect of foreign direct investment (FDI) in a host country's export performance (UNCTAD, 2002), since exports have been for a long time viewed as FDI promotes exports of host countries by augmenting domestic capital for exports, transfer of technology, higher productivity and new products for exports and facilitating access to new and large foreign markets (Basu, 1997). It is proved widely that exports has positive impact on real GDP but not FDI. Conversely, cheaper price of exported goods due to the low input cost and large number of consumers in domestic market attract foreign investors in these countries. The long run relationships of the variables are established through Vector Auto Regression (VAR) using annual data for 40 observations from 1970 to 2009. The important steps in VAR estimation are: (a) Checking the stationary of the variables, (b) Selection of appropriate lag length, (c) Co integration test, (d) VAR Analysis (e) Granger Causality Test and (f) VAR Impulse Response Analysis. The findings of the study help to understand the comparative and competitive performance of export, FDI and GDP growth between two leading emerging economies. This study suggests the policy makers to adopt suitable measures to encourage inward FDI by granting more support to export-oriented foreign firms. Consequently, these policies and strategies that will lead to have better infrastructure, human resources, good governance, business environment and overall economic growth.

Keywords: FDI, GDP, Exports, Economic growth, VAR, China, India

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Banking in Times of Economic Slowdown—A Perspective on Re-strategizing Operations

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Abstract—

Objective

This paper focuses on the business and operational strategy to be considered by Banks and Financial Institutions during economic slowdown. Banks and FIs are in the business of financial intermediation i.e., channelizing investible financial resources to investment opportunities. Banks and FIs create Liabilities and Assets in their operations. The liabilities and assets, though in the books of the FI, are subject to influence by prevailing markets conditions and regulatory norms. Thus, optimum mix of Liabilities and Assets in the portfolio of Banks/ FIs is required to ensure their survival and growth. Banks/ FIs plan their business strategy in the extant business and

economic environment. However, the economic environment is subject to various external economic and non-economic forces beyond the control of the individual institution. The changed economic environment leads to unforeseen impact on the institutions.

This paper focuses on the change required in business and operational strategy by Banks and FIs in during economic slowdown i.e., re-strategizing in economic slowdown. Re-strategizing will not only help FI to survive onslaught on adverse forces, it can be opportunity for business re-orientation. The understanding of possible business and operational re-strategizing in case of economic slowdown will be helpful to the management of Banks/FIs in appropriate decision making for converting adverse economic environment into a favourable business and operational opportunities.

Research Methodology

The paper will be based on secondary data and studies by organizations like RBI (Reserve Bank of India), BIS (Bank for International Settlements), Federal Reserve, Bank of England, CMIE (Center for Monitoring of Indian Economy), IBA (Indian Banks Association) etc.

Keywords: Business Strategy, Asset, Liability, Regulatory Norms, Provisioning, Restructuring, Settlement.

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Determinants of Liquidity Risk and its Impact on Profitability: An Empirical Study of Indian Banks

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Abstract—Liquidity risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. Recent time has witnessed global economic meltdown resulting in creation of worrisome economic environment worldwide. Indian banks though doing well during this turbulent time are however facing problems in terms of constantly fluctuating interest rates and relatively unstable monetary policy. This reflects on liquidity risk and profitability of banks. This paper is an attempt to investigate the determinants of liquidity risk of banks in India. Relevant data of 30 BSE listed banking companies has been obtained and analyzed for last 5 years. Simulation based on variables such as interest rate, liquid assets, liquid liabilities is carried out to identify the determinants of liquidity risk. Further an attempt has been made to identify the significance of relationship between liquidity and profitability of banks in India. Findings of the paper are expected to provide a sound basis for efficient risk management for banks in coming times.

Keywords: Liquidity Risk, Liquid Assets, Liquid Liabilities, Return on Total Assets, Interest Rate

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Is India Banking Sector Moving the Global Way? (Rising NPA in Indian Banking Sector—A Matter of Concern)

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Abstract—Financial sector is the barometer of the financial health of any economy. The role of financial sector of the economy becomes more important especially when the financial systems of major economies of the world are experiencing a turbulent time. The recent turmoil in financial system caused by the sub-prime crisis is because of failure of banking system in USA. The subprime mortgage loan that was not repaid by customers can also be termed as a form of NPA for the bank concerned. In comparison to failures in the other sectors of the economy, bank failures are widely perceived to have greater adverse effect on the economy. A bank failure affects all other sectors of the economy.

Indicators of Bank Failure

A bank failure occurs when a bank is unable to meet its obligations to its depositors or other creditors because it has become insolvent or too illiquid to meet its liabilities. One of the earliest indictors of bank failures in any economy is rising burden of non-performing assets or loans and deteriorating quality of assets in the banking sector. Various factors that contribute to high degree of non-performing assets in India are priority sector lending, poor recovery of loans, high provisioning for NPAs and equally high incidence of writing off of bad loans.

Meaning of NPA

Reserve Bank of India defines NPA as:

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A non–performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained" past due" for specified period of time (90 days, March 31, 2004 onwards).

Burden of NPAs

The Reserve Bank of India's worst fears are likely to come true on the asset quality front with gross non-performing assets (NPAs) of the banking sector set to cross the Rs 150,000 crore mark during the fiscal ended March 2012, indicating a rise of nearly three times from Rs 56,000 crore in 2008 (rise of 168%).

The gross NPA ratio is expected to increase to around 3 per cent by March 31, 2012, from 2.3 per cent as of March 31, 2011. The increase was already visible in the first six months, where the GNPAs of the system increased to 2.7 per cent as of September 30, 2011,"

A gross NPA ratio of 3 per cent means the figure will reach Rs 150,000 crore by March 2012. The priority sector, including SMEs and agriculture, apart from retail, real estate and infrastructure sectors, are contributing the maximum to the stressed assets.

Objectives of the Paper

Against this background, the present paper intends to achieve the following objectives:

- To analyze the trends in NPAs in the Indian banking sector from 2004-2011.
- To assess the contributing factors to the NPA in the Indian banking sector.
- To suggest measures to halt and curtail the rising burden of NPAs.

Research Methodology

Desk research method has been used to generate secondary data while primary data have been collected through personal interview of bank managers and bank employees.

Significance of the Research

The present paper will address the burning issue of rising NPA in Indian banking sector in the light of international debt crisis and failure of major banks in the developed economies of the world. It will make suggestions to curtail rising level of NPAs in the India banking sector, a major cause of bank failures in the long run.

Keywords: Non-performing assets (NPA), substandard assets, doubtful assets, loss assets, asset quality, asset management, priority sector lending.

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Current Foreign Exchange Rate (Rupee\US$) Scenario: A Test of Random Walk

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Abstract—This paper seeks to examine the recent/ current economic scenario and factors behind the fluctuation in foreign exchange market. The causes for depreciation are analyzed, be it global uncertainty, downward rating, strengthening of US$, widening CAD, withdrawal of FII or decline in capital flows, or the policy paralysis, or pure demand & supply game, etc. The paper also looks if rupee was overvalued in REER terms or not. It is also statistically tested that whether the bilateral Indian Rupee\US $ exchange rate follows a random walk or not. This

study also investigates whether the Indian foreign exchange market is informationally efficient or not. The current exchange rate of India is following a unpredictable movement and it has touched a new low. For this study daily data on Indian rupee-US$ exchange rate have been taken for the period of 1st January, 2010 to 31st, December, 2011. A set of random walk unit root and variance ratio tests are employed to examine the Random Walk Hypothesis (RWH). The results, by and large, confirms the presence of random walk. The implication of this finding is that India's foreign exchange market is informationally efficient which is validated by the current situation as it shows the unpredictability of the Forex market. A combination of domestic and global factors appears to be behind this slide. The major reason effecting the recent depreciation had been sentiments and confidence channels which are playing the back-end game.

Keywords: Rupee-Dollar, Market Efficiency, Random Walk Hypothesis, Unit root Tests, Variance Ratio Tests, Exchange Rate

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Derivative Disclosure Index: A Measure of Disclosure of Indian Companies

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Abstract—

Rationale

The last decade has witnessed impressive growth in the use of derivatives as well as high profile scandals resulting from undisclosed derivatives positions. Stronger internal controls and external monitoring may deter corporations from holding risky positions. Since the collapse of prominent companies such as Enron in the United States, Barings Plc in UK and HIH Insurance in Australia, the quality of financial reporting has become a major corporate governance issue. Apart from external monitoring, the disclosure of corporate derivative activity also helps shareholders and investors in understanding how such involvement fits into the organisation's objectives and affects its revenues, financial position and risk profile, in turn making companies stronger in terms of Corporate Governance as well. Following the International Accounting Standards Board's (IASB's) footsteps, the Institute of Chartered Accountants of India (ICAI) notified in March 2008 marking to market all derivative transactions or embracing Accounting Standards (AS) 30, 31 and 32 on Financial Instruments which were notified in 2007, recommendatory from April 2009 and mandatory from April 2011. Hence, this study tried to find out whether the Indian companies have followed the derivative disclosure requirements stipulated in AS 30, 31 and 32.

Research Methodology

This study developed an original Derivative Disclosure Index (DDI). Using the index, the annual reports of companies are examined to determine the extent to which these companies comply with the requirements of AS 30, 31 and 32. The sample of this study includes 30 Indian companies that constitute BSE Sensex. This study applies content analysis method. The period of the study is 2010-11.

Findings

The Indian companies' derivative disclosure level is found satisfactory. Nevertheless, there is a scope for improvement. Though similar studies have been conducted in developed countries, no study has been conducted in the Indian context. Hence, this study tries to fill this existing gap, which forms part of external monitoring.

Keywords: Disclosure, Hedging, Derivative, Accounting Standards, Disclosure Index.