



April - June 2011

# Research Digest

RESEARCH DIGEST

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Financial Transactions Taxes

Parthasarathi Shome

April 2011



INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS

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Enhancing Intra-SAARC Trade:  
Pruning India's Sensitive List under SAFTA

Nisha Taneja  
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**Working Paper No. 256**

Monetary Policy and Credit  
Demand in India and Some EMEs

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May 2011



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India's Experience in Navigating the Trilemma:  
Do Capital Controls Help?

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(<http://www.icrier.org/page.asp?MenuID=24&SubCategoryId=175&SubSubCategoryId=885>)

**India's Experience in Navigating the Trilemma: Do Capital Controls Help?**

*R. Kohli*

June, 2011

Managing capital flows is the key policy challenge for emerging economies like India in the aftermath of the crisis. In contrast to other emerging markets who are levying capital controls, India's macro-monetary framework is distinguished by significant restrictions that help manage inflows. Against this context, the paper characterizes India's capital account management strategy through illustrating the 2006-07 episodes of capital inflows in the buildup to the global financial crisis. It shows how these restrictions allowed the authorities to straddle the open-economy trilemma and balance the exchange rate and price stability objectives. It offers relevant evidence on the effectiveness of India's capital controls in retaining monetary autonomy.

**Working Paper No. 256**

([Http://www.icrier.org/page.asp?MenuID=24&SubCategoryId=175&SubSubCategoryId=884](http://www.icrier.org/page.asp?MenuID=24&SubCategoryId=175&SubSubCategoryId=884))

**Monetary Policy and Credit Demand in India and Some EMEs**

*B L Pandit and Pankaj Vashisht*

May, 2011

Impact of changes in policy rate of interest on demand for bank credit is examined for seven emerging market economies including India for the period 2002 to 2010. Panel data techniques are used after ruling out the presence of unit roots. The results show that when other determinants, like domestic demand pressure, export demand

and impact of stock market signals are controlled for, change in policy rate of interest is an important determinant of firms' demand for bank credit. The results confirm that monetary policy is an important countercyclical tool for setting the pace of economic activity.

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**Enhancing Intra-SAARC Trade: Pruning India's Sensitive List under SAFTA**

*Nisha Taneja, Saon Ray, Neetika Kaushal and Devjit Roy Chowdhury*

April, 2011

The study suggests an approach to reduce India's sensitive list under SAFTA. The concept of Revealed Comparative Advantage has been used to pair the RCAs for products on India's sensitive list with the corresponding RCAs of the SAARC countries. Four categories of items are generated based on whether India or the SAARC country is competitive in each of the items. This process helps in identifying items in which India is competitive and those where the exporting SAARC country is not competitive. Such items are recommended for removal from India's sensitive list. Items that are vulnerable to competition include those items where the exporting country is competitive but India is not. Such items can remain on the sensitive list and can be removed gradually in a phased manner.



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**Financial Transactions Taxes**

*Parthasarathi Shome*

April, 2011

This paper attempts to address both theoretical and practical considerations for a tax such as financial transactions taxes (FTT). It includes examples of FTT in the wider context, for example, on stocks and derivatives, currency transactions, and tangible property. Most of the discussion

centres on financial market issues to reflect the thrust of current discussion and debate. What is found is that assumptions and commensurate analysis about how financial markets function drive the final views and outcomes over FTT. A roadblock, that a clear understanding or explanation of the range of behaviours in financial markets is incomplete and imprecise, remains. However, globally, FTT remains a commonly used tax. A cross-country comparison is provided. It reveals, however, that FTT is often used as a temporary instrument.

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