The Velocity Crowding-out Impact: Why High Money Growth is Not Always Inflationary

Sitikantha Pattanaik
Subhadhra S

In the mainstream monetary policy, consensus that prevailed prior to the global crisis, there was increasing de-emphasis on money and credit aggregates in the conduct of monetary policy, because of the overwhelming faith on the interest rate, both as an instrument of policy and as an indicator of overall monetary and liquidity conditions. In the aftermath of the global crisis, however, there seems to be a renewed emphasis on money and credit trends, though how the money growth indicator could be used in the actual conduct of monetary policy remains largely unclear. The Reserve Bank, despite abandoning explicit monetary targeting in 1998, still continues to announce indicative money and credit growth trajectories and also monitors their trends in order to identify any lead information that may be relevant for policy. In the analysis of the information content embodied in money growth, recognizing the possible sources of instability in money demand and resultant changes in money velocity becomes critical. In the context of the severe "velocity crowding out of quantitative easing" that was experienced in the US in the midst of the global crisis, it is important to recognize that external developments, particularly the risk of contagion from a crisis, could at times add significant instability to domestic money demand. Shocks to money demand from both anticipated and unanticipated factors could make the velocity unstable, adding thereby noise to the analysis of the money growth variable. This paper studies the money velocity trends for India, and using the standard determinants of velocity from the literature, it aims at exploring the possibility of generating forward looking assessment of velocity, so that money growth trends could be better explained relative to other economic variables, particularly output and prices. Every projected money growth trajectory, ideally, is linked to conditional predictability of velocity, which though is not always feasible. But in the absence of a reference to velocity trends, money growth alone at times may be misleading, even in the short-run. As per the empirical findings of this paper, conventional determinants of velocity appear to be statistically significant for Indian data, but the estimated parameters alone may not be sufficient for undertaking a forward looking assessment of velocity, particularly during periods of major uncertainty that could cause velocity to deviate significantly from its medium-term trend.

Prevention of Non-Performing Assets in Banks: An Application of Artificial Neural Network

A P Pati, Bimal Debnath
T K Sinha
Over the last few years' Indian banking, in its attempt to integrate itself with the global banking, have been trying to reduce the Non-Performing Assets (NPAs) and to a great extent been successful in doing so. However, designing an intelligent Decision Support System for NPAs management can act as a major catalyst in efforts to reduce their incidence at the initial stage.

Based on a primary survey of 100 bank managers engaged in sanctioning of industrial loan to small industries the Knowledge Based Decision Support System (KBDSS) is devised with the help of artificial neural network. Initially appropriate criteria (financial ratios and qualitative criteria) are identified and selected that are the most appropriate for the evaluation of the loan applications from borrowers. Each of the 26 selected criteria is modeled using four-point scale. Using Matlab Neural Network Toolbox, Perceptron and Probabilistic Neural Networks are designed and trained with the set of training data. The network developed is able to discern the quality of the borrower and eventually draws inference such as "Loan can be granted", "Loan cannot be granted" and "Doubtful cases". The developed network is tested with a set of 100 borrowers' data for its validation and further refinement. It is observed that the Probabilistic Neural Network provides a better decision in comparison to Perceptron Network in identifying the three categories of loan applications. This approach to handle loan applications is a prototype and can be extended further to other loan categories which could be a preventive measure to the NPAs problem in Indian banking.

**Brief Articles, Notes and Comments**

**Bank and Product Selection: A Comparison of Rural and Urban Customers**

Banking being a service industry, creates and delivers services for the fulfillment of customers' financial needs. In the present era of fierce competition, where a huge choice is available to the customers, every banking organization has an onus to attract the new customers and retaining the existing ones, by providing them with innovative and sophisticated services and that too to every nook and corner. Therefore, the present research work has been carried out to analyze, comparatively, the factors affecting customers' bank selection criteria in rural and urban branches of Amritsar district. Moreover, customers' banking habits have also been analyzed. For the purpose of analysis, Factor Analysis has been employed on 14 variables measuring selection criteria on a sample of 140 bank customers. Further, ANOVA has also been performed on the factors extracted to check for the significant differences, if any, in the selection criteria of rural and urban customers.

**Book Reviews**

**Monetary Policy in a Globalized Economy: A Practitioner's View**

New Delhi, Oxford University Press, 2009, xx + 328 pp, Rs.795.00

Reviewed by **Saket Hishikar**, Research Associate, National Institute of Bank Management, Pune.
Growth with Financial Stability: Central Banking in an Emerging Market
New Delhi, Oxford University Press, 2011, liii + 500 pp, Rs. 950.00

Reviewed by Sumit Jain, Research Associate, National Institute of Bank Management, Pune.

Telegraphic Reviews

Booknote

International Banking in the New Era: Post-Crisis Challenges and Opportunities
(International Finance Review, Volume 11)

Suk-Joong Kim and Michael D Mckenzie (eds)


Index to Vol. XL: 2011-12

Referees of Prajnan: 2011-12