

The Rural Banks In India: Are They Shock-Minimizer?

You might be wondering what this means, but the research findings by Dr Sankar De, Professor and Director, Centre for Emerging Societies, show that, on the whole, the commercial banking system in India responds positively to credit demand shocks following a drought. This provides a measure of insurance against what could be severe hardships.

Agriculture remains a major sector of the economy in India and other emerging countries. Rainfall and supply of credit are two key determinants of agricultural output in those countries. Intermittent failure of monsoons and other weather-related vicissitudes frequently upset normal income and consumption patterns of many rural households. How effectively does the commercial banking system respond to idiosyncratic shocks to their income and consumption, and makes extra credit available at a reasonable cost? Professor De's research paper, recently presented at a seminar at the World Bank Finance Research Group in Washington DC, deals with this important issue. In spite of its undoubted importance, the issue has not been examined before. In this paper Prof De and his coauthor Siddharth Vij, currently a student in the finance PhD program at Stern School, New York University, examine the responsiveness of the commercial banking system in the rural economy of India to exogenous shocks to credit demand following a drought, and conduct multiple tests with extensive data of bank credit and rainfall at the district level in India.

Following his talk, Professor De was invited to write a blog on his work in the "All About Finance" site of the World Bank. To know more about the work undertaken by him, please go to the blog:

<http://blogs.worldbank.org/allaboutfinance/are-banks-responsive-credit-demand-shocks-rural-economies>