

How to Cite:

Rahman, T. (2022). Effects of financial globalisation on interest rate differentials in India. *International Journal of Health Sciences*, 6(S2), 4439–4455.
<https://doi.org/10.53730/ijhs.v6nS2.6055>

Effects of financial globalisation on interest rate differentials in India

Tahrin Rahman

Assistant Professor, Department of Economics, Handique Girls' College,
Guwahati, Assam

Email: tahrinrahman2@gmail.com

Abstract---India initiated a number of reforms in 1991, after opening up of the economy to the Global world. India's integration with the global economy increased trade and accelerated economic growth. The outcome of the process of Globalisation and integration of the Indian economy has also led to integration of India's financial market with the rest of the world. As an outcome of this process, there has been an excessive Capital inflow to the Indian economy exerting pressure on the asset prices. The purpose of this paper is to explain the impact of financial sector reform on Interest rate differentials in India. This study tries to focus on the sensitivity of interest rate differentials as a consequence of changes in the global economy, and its effects on the people. Though at the aggregate level, the inflow of Capital has created surge in economic activities and increased demand and supply, but the question of interest remains whether certain sections of the population have been overlooked. It has however been found that difference in deposit rates and various lending rates became wider because of financial integration. To sustain growth, micro economic issues needs better attention along with macro-economic targets.

Keywords---financial integration, interest rates, capital flows.

Introduction

Indian Economy underwent some significant changes in the years 1991-2021 as it became increasingly and progressively open and financial sector reforms were also introduced. The wave of financial Globalization since 1991 has been marked by an increase in capital flows to India. These capital flows have without doubt increased the growth rates in the Indian economy since then. It is also without doubt that India's integration with the global economy has created a growing confidence among the international investors in the Indian economy. India's policy reforms, liberalization of foreign investment regulations, as well as fiscal

and monetary management has increased the confidence of the international investors. Buigut and Rao (2011) and Prasad (2009) provide discussions of managing financial integration in the Indian economy. The Reserve Bank of India (RBI) Reports on currency and Finance (RBI, 2003-04; 2020-2021) contain details regarding such liberalization. Thus it is generally acknowledged that Indian Financial markets have been opened up to a significant extent and its integration with Global markets has created significant impact on the Indian economy. (Bhatt and Virmani, 2005 and Das, 2017)

The ratio of Merchandise trade (exports plus imports) to Gross Domestic Product also rose from about 18% in 1993-94, to about 26% by 2003-04, as a result of opening up of the economy. Including service trade plus invisibles, external transactions as a proportion of GDP increased from 25% to 40% during that period. Along with the increase in trade, as a percentage of GDP, capital inflows also increased. Foreign currency assets of the Reserve Bank of India (RBI) also rose from USD 15.1 billion in March 1994 to over USD 140 billion by March 15, 2005. These changes have affected liquidity in the Indian money market and monetary management as well. (Mohan, 2008)

Monetary policy has always been proactive in adjusting to the changes in domestic macroeconomic situations. Monetary policy has responded continuously which has assisted economic growth and output in the Indian economy since then. Capital flows have been associated with high growth rates. But from the perspective of macroeconomic stability, increase in consumption can be counted also as a measure of well-being along with output. Fluctuation in consumption may have a negative impact on economic welfare. Yet, while being broadly beneficial for economic growth, financial rearrangements or the benefits from financial integration with growing capital flows, it is necessary to examine the impact on both output as well as consumption to reap the maximum positive benefits which will improve productivity and sustain growth in an increasingly growing economy. (Das, et al 2017)

Objectives of the Study

The objective of this paper is to:

1. To study the impact of financial sector reform on Interest rate differentials in India.
2. To study the sensitivity of interest rate differentials as a consequence of changes in the Global economy, and its effect on the people.

Data and Methodology

For the present study descriptive research cum analytical design is used. The Study is based on Secondary and published data. The period of analysis is from 1991 to 2021. This period was selected because it represents the post-liberalisation era. Many decontrol measures were implemented during this period. This period gives us as comparative study of a decade post Globalisation. For the research study, data has been gathered from the financial reports of Reserve Bank of India (RBI) and from other published papers. In this study we

concentrate on the effect of interest rate difference on savings, investment and capital market. This research paper is driven by the need to know the effect of financial integration on interest rates in India and its impact on the common people. The type of research design selected for the paper is the ex-post facto and was selected because there is no incentive to manipulate any of the investigated variables by the researcher and the instinct is mainly to observe economic occurrence of interest rate as a consequence of financial integration. This paper will use descriptive statistics in analysis.

Literature Review and Basic Stylized Facts

Financial Globalisation and financial integration are closely related but different concepts. Financial Globalisation is an aggregate concept that refers to rising global linkages through cross-border financial flows; Financial Integration refers to an individual country's linkages to International Capital markets. For instance, increasing financial Globalisation is necessarily linked with rising financial integration. (Prasad, et al 2003)

Subbarao (2013), former Governor of Reserve Bank of India (RBI), in his article 'Challenges of Making Monetary Policy in a Globalizing World: The Indian Experience', gives a brief account of how emerging markets responses to the capital flow management. He states that in order to minimize the adverse impact of volatile capital flows, central banks in these countries should follow a proactive approach and pursue a host of policies. Each policy pursued, nevertheless is associated with costs.

Mohan(2020), former Deputy Governor of the Reserve Bank of India, and Secretary, Department of Economic Affairs, Ministry of Finance, Government of India says *In the 1990s, monetary policy was reviewed and the Reserve Bank has switched over to a more broad-based multiple indicator approach since 1998-99. Policy perspectives were also looked into by looking at interest rates or rates of return in different markets (money, capital and government securities markets), such as currency, credit extended by banks and financial institutions, fiscal position, trade, capital flows, inflation rate, exchange rate, refinancing and transactions in foreign exchange, and output data.*

Chinoy(2012), Chief India Economist at JP Morgan, in his article 'India and De globalization: More Open and Exposed Than You Think', states that contrary to popular perception of India being a relatively closed economy, India's exposure to international trade has increased significantly in recent decades. In his article *Macroeconomic Challenges of an Open Capital Account*, SenGupta (2013), Economist with the India Resident Mission of the Asian Development Bank (ADB), reviews India's integration with global capital markets in the last 25 years and points out the associated policy challenges that may arise in managing volatile capital flows.

A number of theories have discussed the interest rates and its influence on production and consumption. Patterson and Lygnerud (1999) define interest rates as prices. Interest is a price that is paid for the money that is borrowed in a time period. In the context of most common, interest is the amount of charge to the

debtors within the time of using the credit provided (Mutinda, 2012) defines interest rate as a credit cost in economy and for more specific is a charge for price per year from the creditor to borrowers which is gets a loan.

The theory of debt funds views interest level in financial market as a result of factors of supply and demand. This theory determines the interest rate like determination of demand and supply of goods. Debt funds supply increases with the increases in interest, the all other factors remaining constant (Saunders, 2000). According to Keynes (1965), he describes in his liquidity preference theory, interest rate as a reward for parting with liquidity and shown its linkage with the employment theory. According on Keynes (1965), money supply and demand influences the interest rate. Furthermore, Fisher (1930) states that the power of interest rate was influenced by factors such as source of savings by the household or by the source of investment demand and capital mostly from commercial industry.

Interest Rate Differential (IRD) measures the differences in interest rates between two or more similar interest bearing assets. To put it simply, it is the difference between two or more interest rates. In common men's term, interest is the price paid for borrowed funds. This price is generally expressed as a rate percent per unit time normally it is measured as per year or per month. It is a price the borrower has to pay whereas the lender receives a profit or revenue on the money lent. It has great economic significance not only at the Macro level but in the micro-level as well i.e. for the individual saver. Interest as a price affects decision making in several aspects and has important effects as well.

Gupta (2020) in his discussions of Interest Rate Differentials (IRD) outlines certain definitions of IRD that are in widespread use, and is of relevance to the current paper. Differences in the rates of interest of different asset has different implications on the economic factors as it affects investments, borrowing and lending portfolio composition, selection of projects, capital-intensive techniques of production, international capital flows, savings, and distribution of income.

Interest rate differentials are enormously large in any economy; it may be administered interest rates or the market-determined interest rates. Even within the administered interest rates, interest rates may be quite different, with deposit interest rates of banks being different on savings deposit accounts and fixed deposit accounts. Again rates vary with maturities with different time periods of fixed deposits. Fixed deposits, savings deposits, post-office deposits, small savings certificates etc. are the dominant form of financial assets held by households in India. Then public limited non-financial companies also solicit term deposits from the public at different rates of interest that is administered by them. Then there are market determined interest rates. Market determined interest rates can again be classified as Marketable Government debt and other marketable debt, interest rates on whom are again different. Marketable government debt includes not only the market debt of the Central & State Governments, but also of local authorities and of development banks. Marketable Government debts are guaranteed by the Government both in respect of Principal and interest so as to make them default-risk free. This makes savings and investments in these Government debts attractive to the common men. There is also strong market support to the

government debt by the Reserve Bank of India (RBI) which makes it more attractive to common mind-set. The disadvantage of it is that such debts usually carry lower rates of interest.

Other market debts are corporate debt and non-corporate debt, and the rates of interest on these also differ considerably. Corporations borrow funds in the open market by issuing bonds or debentures of various maturities and shares. Papers for all these are traded on organised stock exchanges in the country. Therefore, their prices (and yield rates) vary from day to day, even hour to hour, under the impact of changes in the market demand and supply conditions.

Thus there are many structures of interest rates in India as there are separate sources of differences in the rates. Rates of interest also differ with the default-risk-structure or the net-worth-structure of the asset. Whether the debtor is a government firm or a private firm will determine its place in the risk structure as well as its position in the net worth structure. Absence of default risk in the case of government securities makes them securities of the highest quality. All other securities or loans carry more or less risk of default. So, usually interest rates on loans or deposits or investments include a premium for this risk-taking. Corporate bonds are even given ranking as AAA, AA, A, BBB etc. as risk rating (in order of increasing risk) by security analysis.

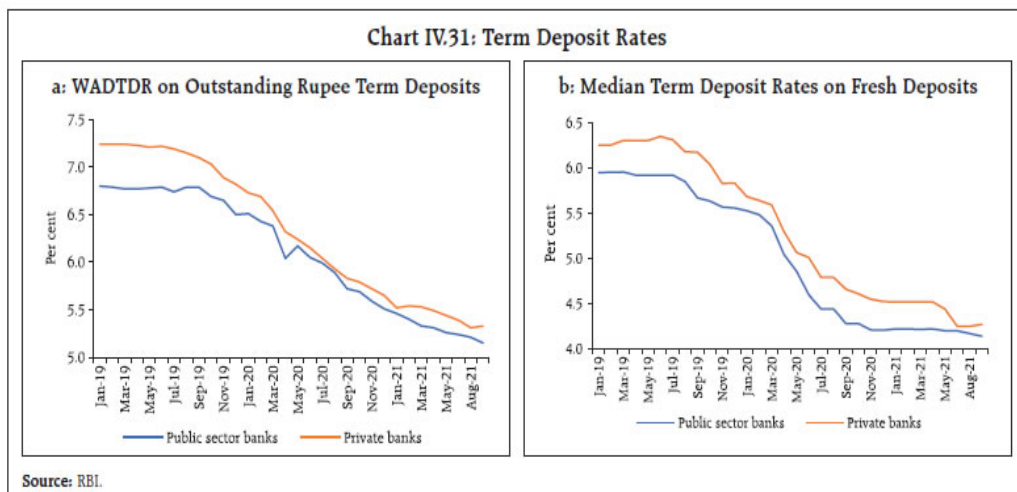
While credit rating is important, there are instances of companies fumbling and struggling too. For the government, its 'promise to pay' its security makes it more reliable. The lender has full faith in the repaying capacity of the government. Moreover differences in interest rates are also associated with the differences in the liquidity of debt and also the term to maturity of debt. Under these conditions, default risk structure of Government bonds and securities, savings deposits of banks was alluring to the common man who would not want to take up any risk with their hard earned money or their pension funds. (Gupta, 2020)

Discussion

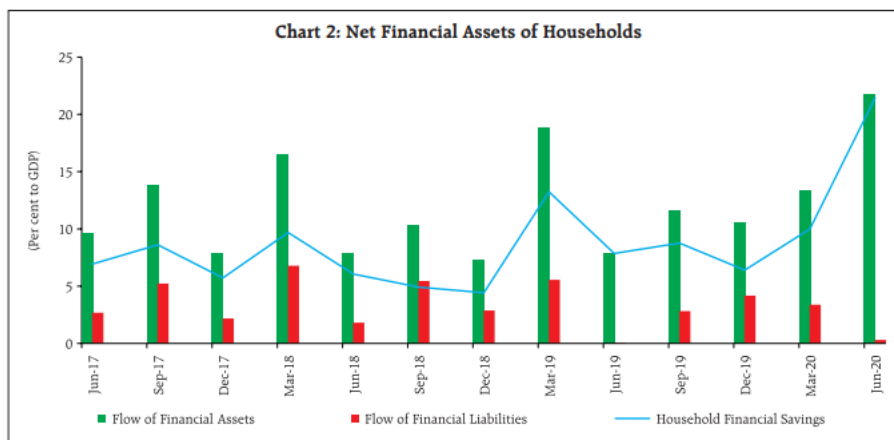
It has been observed, that for the past couple of years, deposit rates in India have been falling consistently. Today, the interest rates available on fixed deposits (FD) with popular banks range from approximately 4% to 5.5%. Once upon a time, fixed deposit interest rates were as high as 8-9%. Those were the merry old days of FDs, when people flocked to them and invested heavily because of the high return associated with it. A senior citizen could get a higher than 9% percent interest rate on an FD. Thus keeping money in fixed deposits was an earning for them. But those days are far behind us now. With low interest rates round the corner, keeping money in fixed deposits, even for senior citizens will give low earnings. Unlike before, fixed deposits and other savings deposits in Banks has become extremely unattractive investments option in this low deposit rate scenario for the ordinary citizen. Savers are losing much every year because of the low interest rates. Opening a savings account in a bank, is almost like burning money, where the inflation rate is also going high. Although the low interest rates are conducive for economic growth, but for the common man, the question arises as to where to keep their money and earn a safe return from it. Pensioners, who looked into keeping their money in fixed deposits, are no longer satisfied. So its

question for the ordinary man arises as where to invest their money and earn a safe return post retirement. Not only the deposit rate of banks have decreased but all types of administered interest rates like small savings, post office deposit rates, which are the dominant form of financial assets held by households in India have decreased. It is no more profitable invest in such assets. The ordinary citizen, used to invest in Government debt funds because of the low risk associated with these funds and strong market support to the government debt by the RBI. But the rate of interest on these too has been on the decline. The common man is now faced with the dilemma as to what to do with their savings in this world of low Bank interest rates; People want security after retirement and in old age and as well as a good life. So how should they invest their money? People usually want to invest their money in some safe account which could give them a safe return as a pension. But that plan may not work out soon. The households in India usually stay away from investing in assets where returns are high but always risky. Although the benefits of low interest rates have pushed the economy forward, the cost has to be borne by a different section of people. They are now left with little choice. It is as good as keeping their money in a safe locker at home. It is barely worth going to the bank. They would rather keep their money in cash or gold, but cash was always as priority. Low interest rates mean lower cost of borrowing and are supposed to push spending and production, and stimulate growth. But whether or not low interest rates push spending and investments, they certainly imply low interest income for pensioners, charitable trusts, widows, middle class people with savings, local public bodies, non-governmental organisation, endowment funds in educational and research institutions and so on. (Singh, 2020)

Thus, while low interest rate has been an incentive for the borrowers, the thing which we have not been adequately focusing on is about the lenders. The real interest rate for savers is in the negative territory now. (Clear tax.in Jan11, 2011) The trend of falling interest rates has been continuing for the last few years. The graph below reflects the falling term deposit rates of 2019-2021 in India.



WADTDR- Weighted Average Domestic Term Deposit Rates



Source: RBI bulletin

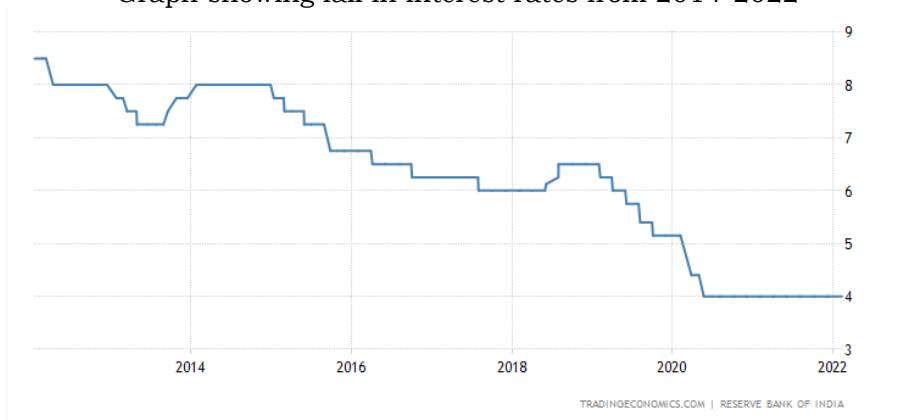
There has been an increase in household financial assets in the period 2020-2021 but this increase was led by significant increase in the households' holdings of mutual funds, insurance products and currency. The household savings in mutual funds has increased to 1.7 per cent of GDP in Q1:2020-21 from (-) 0.9 per cent in 2019-20 and 0.2 per cent in 2019-20. Household savings in insurance products is estimated to have increased to 3.3 per cent from 0.7 per cent and 2.3 per cent, respectively, over the same period. Similarly, currency holding by households increased to 5.4 per cent from 3.0 per cent in 2019-20 and 1.3 per cent in 2019-20. The increased flows to mutual funds seem to have been driven by low returns on bank deposits and the stock markets touching new peaks after initial volatility in March 2020(RBI Bulletin November 2020)

The Reserve Bank of India left its benchmark repo rate at 4 percent during its February meeting, saying it was maintaining an accommodative monetary policy stance as long as necessary to support the economic recovery. The bank also held the reverse repo rate, the borrowing rate, unchanged at 3.35 percent. The central bank had last revised the policy rate on May 22, 2020 by cutting interest rate to a record low. Policymakers expect inflation to average 5.3 percent in FY 2021-2022 and 4.5 percent in FY 2022-2023. Meanwhile, the real GDP growth is projected at 7.8 percent for FY 2022-2023(source: Reserve Bank of India)

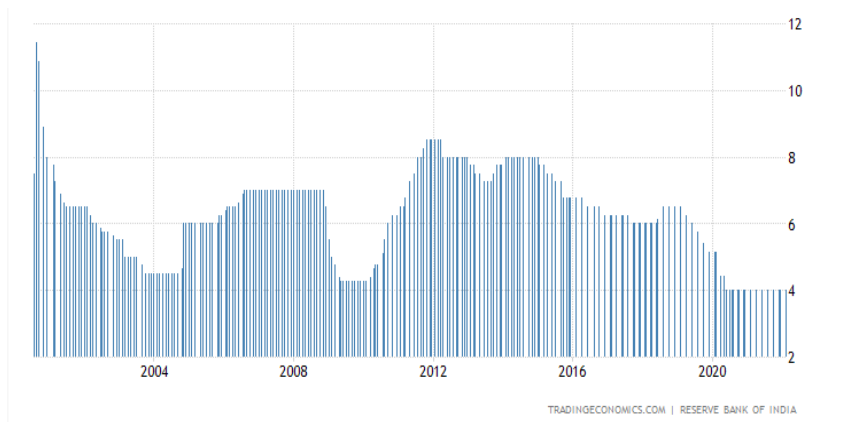
Graph showing fall in interest rates from 2004-2020



Graph showing fall in interest rates from 2014-2022



Graph: Interest rates in India from 2004-2020



Investing in equity mutual funds and debt mutual funds has been left as an option for the average investors who are willing to risk their funds in the market.

The reasons for interest rates declining can be traced to two possible reasons.

1. Banks today have increased liquidity due to the rise in cash deposits by customers. After demonetization in India, many banks received huge cash deposits. Since a huge chunk of these deposits has been kept in savings accounts, the banks have been cutting the FD account rates. An influx of cash in such large volumes also means that the supply of money has increased with the banks. And as we know, a lowering of deposit rates is usually accompanied by a lowering of lending rate too. Which the interest rates being cut, the MCLR (Marginal cost of funds based lending rate) has also come down. This is no doubt good news for those looking to borrow money from banks. But the average investor whose only aim is to save money and earn more from an investment is however left in the lurch due to this.
2. But all is not doing of the Central Bank. In a broader perspective, there is a long term worldwide trend of falling interest rates in the market, and currently even the estimated neutral rate of interest is low. In recent years, the interest rate in developed nations is near zero. (Business-standard.com; April 08, 2021)

The U.S. Federal Reserve, in its Sept 16, 2020, meeting, guided the market on a near zero interest rate policy (ZIRP) over the next few years (news report: Morningstar Jan 21). The low interest rate policy is one of the prominent policies of the US Fed. Following the Global financial crises of 2008, ZIRP lasted for seven years, from 2008 to 2015. And here lies the rub for India's Central Bank Policies. (Singh G, 2020)

In India interest rates are not at near Zero, but the repo rate is now at 4%. Interest rates of some popular commercial banks are linked to the repo rate. And again the RBI has to manage the huge flow of credit, while ensuring that the INR does not appreciate too much. An appreciating rupee poses threat to the terms of trade for Indian exporters and has the ability to throw the economy out of the growth wheel. The RBI has chosen to have a 'fixed exchange rate', in an open economy (or, at least as fixed as markets would allow in an open economy), it is losing its influence on setting the market interest rate. That is why on Jan 6, 2021, the 91 day Treasury bill was at 3.03%; it inched lower than what the RBI set as the policy rate.

With time it has become highly desirable that Indian investors with international exposure, to buy business that has competitive advantages, which compound with time. These are the only advantages they can have now, as the traditional advantages like 'economics of scale,' 'high upfront investment' has withered away. They have become ineffective due to the prevailing low-interest rates in Western countries.

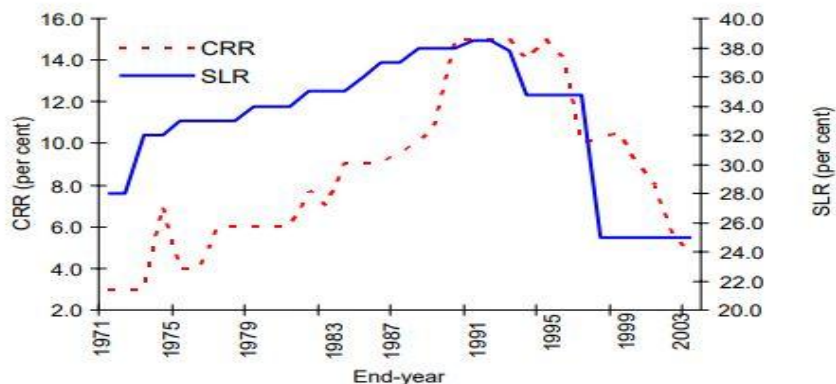
Various discussions among eminent policymakers and economists from international institutions and the financial industry have put forward various facts of India's international integration and the challenges to sustaining growth. Most studies that relate to demand for money in India shows that money demand functions had been fairly stable. Therefore it was however felt that since several

financial innovations had recently emerged in the economy due to financial integration, it provided some evidence that the dominant effect on the demand for money in the near future need not necessarily be from real income, as it was in the past. But interest rates do seem to exercise some influence on the decision to hold money. In the 1990s, monetary policy was reviewed and the Reserve Bank has switched over to a more broad-based multiple indicator approach since 1998-99. Policy perspectives were also looked into by looking at interest rates or rates of return in different markets (money, capital and government securities markets), such as currency, credit extended by banks and financial institutions, fiscal position, trade, capital flows, inflation rate, exchange rate, refinancing and transactions in foreign exchange, and output data.(Dr. R. Mohan)

Thus a number of reforms have been implemented in the financial sector and monetary policy has evolved with increasing globalisation. Globalisation led to modification monetary and financial sectors. The Reserve Bank of India expanded the array of instruments at its command and enhanced its ability to respond to shocks. Thus the efficacy of monetary policy has also improved as a result of a conscious effort to progress from direct instruments of monetary control to indirect instruments. Over the years, the reliance on reserve requirements, particularly the cash reserve ratio (CRR), has been reduced. The CRR has been brought down variations, from a peak of 15% in 1994- 95 to 5% currently. The objective of the policy is to reduce the CRR to its statutory minimum of 3% over a period of time. Before economic reforms or globalisation, the financial markets were highly segmented and controlled and the interest rates in the government securities market and the credit market were tightly regulated. Credit was extended to the Government by mandating the maintenance of a minimum statutory liquidity ratio (SLR) whereby the commercial banks had to set aside substantial portions of their liabilities for investment in government securities at below market interest rates. The SLR, which had been about 37.5% in the beginning of the 1990s, was brought to its statutory minimum of 25% by October 1997(Graph1)

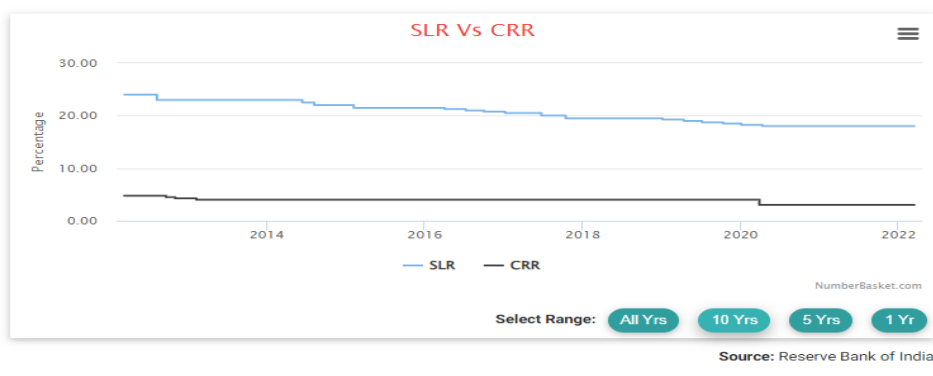
The rates of interest on government securities are also determined by the market through an auction process. It is found that banks hold a substantial part of their portfolio in government securities, and usually it is more than the statutory minimum, and it is more as a result of their risk perception and portfolio choice than of statutory compulsion. The RBI therefore made a proposal to the Government to amend the Reserve Bank of India Act and the Banking Regulation Act so as to allow the greater flexibility to the RBI to reduce the CRR and SLR below the current statutory minimum, if the monetary situation demands, there after we witness a further reduction of the rates.

Graph 1
Reserve requirements



Graph 2

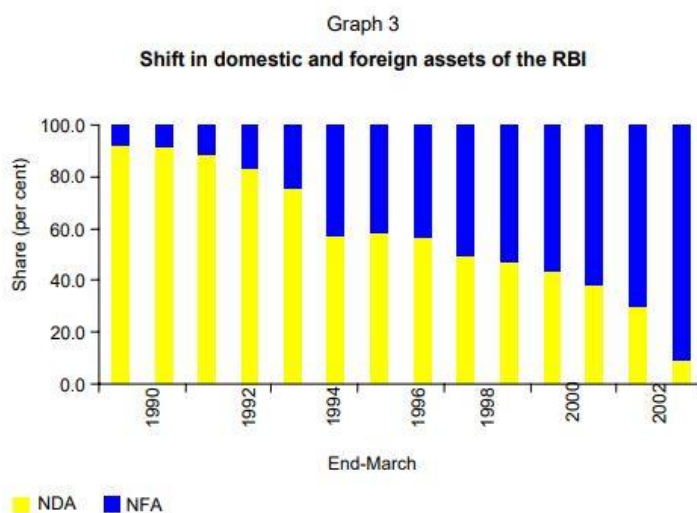
Statutory Liquidity Ratio (SLR) Vs
Cash Reserve Ratio (CRR)



Financial Integration led to the adoption of structural reforms and external liberalisation in the early 1990s, and the Indian economy experienced surges of capital inflows; an indicator of the consequences of globalisation. Net capital inflows increased from an average of USD 5.8 billion (INR 82 billion, or 2.2% of GDP) per annum during the second half of the 1980s to USD 9.1 billion (INR 354 billion, or 2.2% of GDP) per annum in the second half of the 1990s and to an average of USD 15.7 billion (INR 735 billion, or 3.1% of GDP) in 2002-03 2003-04. External financing constraint was eased due to capital flows, but it also posed the dilemma how inflation was to be controlled? As money supply increased, monetary policy action was needed to ensure that in the pursuit of target of growth, price stability was not endangered.

The principal instrument for managing capital inflows in India has been sterilisation. In order to neutralise the expansionary impact of rising net foreign exchange assets (NFA) in the monetary base, the Reserve Bank resorted to open market sales of government securities from its portfolio. In this context, engaging in Market Stabilisation Scheme (MSS) has given an additional instrument for

liquidity management. MSS is an arrangement between the Government of India and RBI to mop up the excess liquidity generated on account of the accretion to the foreign exchange assets of RBI to neutralise the monetary impact of capital flows. Under the scheme, RBI issues Treasury Bills/dated government securities by way of auctions and the cost of sterilization is borne by the Government. The bills/securities issued under MSS are matched by an equivalent cash balance held by the Government in a separate identifiable cash account maintained and operated by RBI and such balances would be appropriated only for the purpose of redemption and/or buy-back of the Treasury Bills and/or dated securities issued under the MSS. As on March 18, 2005, Rs.64, 211 crore was mobilised under MSS. As a result, there has been offsetting movement between the NFA and net domestic assets (NDA) of the Bank (Graph 3). This could be gauged from the fact that the share of NFA in reserve money (RM) has risen from under 10% in March 1991 to over 123% now (as at March 25, 2005). Similarly, the NFA to currency ratio rose from about 15.0% to over 165.2% during the same period. Because of sterilisation operations, the growth in RM could be contained within the desired trajectory in order to avoid excessive money creation. (Dr. R. Mohan, former Deputy Governor, RBI)



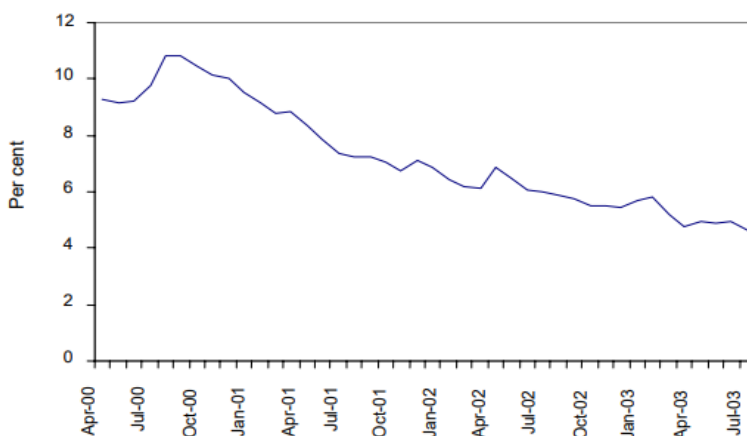
Growth in substantial reserves in the Indian economy in the recent period has generated a welcome debate regarding the costs and benefits of holding reserves. In any cost-benefit analysis on this topic, it is essential to observe the objective of holding reserves in emerging markets, which will, among other things: (a) maintain confidence in monetary and exchange rate policies; (b) enhance the capacity to intervene in forex markets; (c) limit external vulnerability so as to absorb shocks during times of crisis; (d) provide confidence to the markets that external obligations can always be met; and (e) reduce volatility in foreign exchange markets.

In spite of sustained sterilisation, there has been an all-around reduction in interest rates in recent years to historically low levels. For example, the overnight call money rate fell from 13.06% in August 2000 to 4.86% in March 2005. The 91

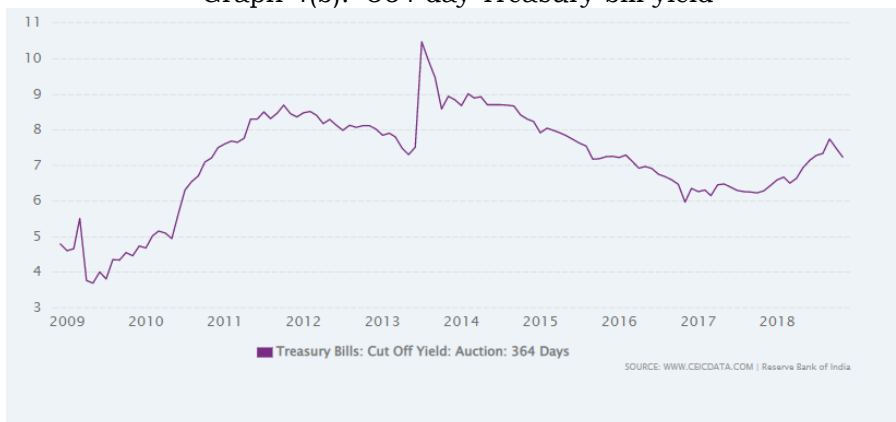
day and 364 day Treasury bill rates fell from 10.47% and 10.91% to 5.37% and 5.61%, respectively. Secondary market yields on government securities with one year, 10 year and 20 year residual maturities declined from 10.82%, 11.47% and 11.61% to 5.67%, 6.66% and 7.08% respectively between August 2000 and March 2005. The interest rates on AAA rated corporate bonds also fell, from 12.1% in August 2000 to 7.14% in March 2005.

The average cost of government borrowing declined from about 11% during 2000-01 to 5.96% in 2004-05 itself. Thus, contrary to conventional thinking, sterilised intervention has not resulted in an increase in interest rates. (Mohan, 2004)

Graph 4
364 day Treasury bill yield

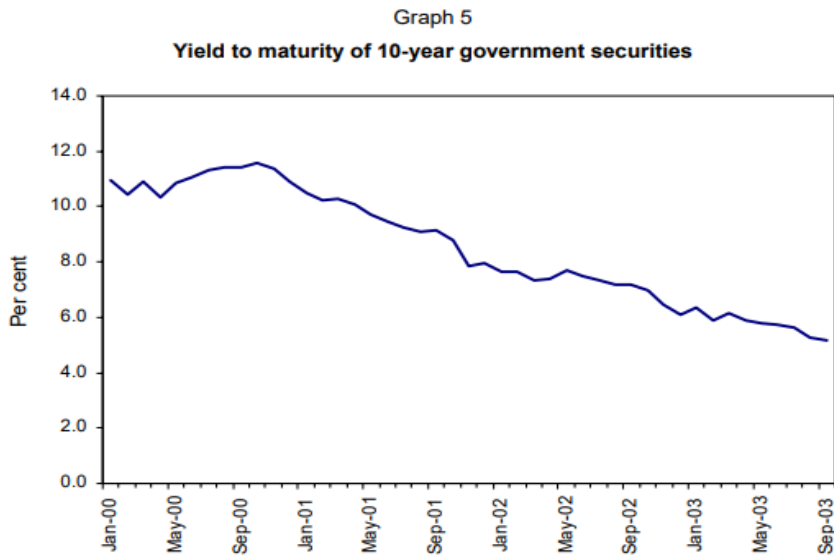


Graph 4(b): 364 day Treasury bill yield



India Treasury Bills: Yield: 364 Days data is updated monthly, averaging 7.803 % pa from Apr 1992 to Nov 2018, with 319 observations. The data reached an all-time high of 13.161 % pa in Jul 1995 and a record low of 3.680 % pa in May 2009. India Treasury Bills: Yield: 364 Days data remains active status in CEIC

and is reported by Reserve Bank of India. The data is categorized under Global Database's India – Table IN.MD001: Treasury Bills Yield.



Graph 5(b) Yield to maturity of 10-year government securities



A CRR cut, injection of liquidity through OMO, forex buying took the net liquidity surplus to above Rs.4.5 lakh in October 2020. Given the above guidance, the three-year government bond yield is hovering around 4.45-4.65% and the five-year government security yield at 5.15% level. The AAA PSU bond yield in the three-year segment is trading in the 4.70 – 4.90% range and five-year bonds around 5.50% range. The spread between G-sec and AAA PSU bonds stands around 20 to 30 basis points up to the five-year segments in the year 2020. (Economic times, 04-Nov-2020).

The fall in interest rates has only translated into falling yields in the financial markets. In an open economy, the exchange rate and interest rate objectives became intertwined as real and monetary shocks are transmitted across national boundaries, making the conduct of monetary policy more challenging. Hence,

monitoring of international inflation and interest rates has become an integral part of monetary policy making in India. The reduction in inflation and interest rates has occurred along with strong GDP growth, which averaged 6.2% a year over 10 years.

With capital flows expected to remain strong, a key issue in the future would be greater innovation in the use of available instruments to deal with the expected strong capital flows. Analysis of this study is that interest rate differentials affect both investment and savings. Difference in deposit rates and various lending rates became wider because of financial integration. Few options left for savers can be a matter of concern for maintaining economic stability. While analysing the factors behind the recent growth pattern, the two closely related variables – savings and investment rates – should be taken into account along with while acknowledging the policy changes.

Thus in order to sustain growth, certain microeconomic issues needs to be paid greater attention i.e. better distribution of income. To sustain growth, micro economic issues also need better attention. Even though the Indian market is booming, all stake holders of the economy are not partaking in the boom adequately. Low rise in India's domestic saving rate deserves more detailed investigation. Again, interest rates for big corporate houses and of small corporate houses also seem to differ. Banks now follow differential interest rates to corporate houses based on their credit ratings. This may appear to be logical at certain times, but the difference between interest rates for a highly rated corporate bond and a moderately rated corporate bond may be as huge as 5 to 6 percent (TOI, Dec 10, 2020). Thus though there has been a continuous fall in interest rates of banks, the price of real-estate shares are on the rise. This might lead to widening the gap between the rich and the poor. Inequality in India is a more serious problem than it is otherwise recognised. It can lead to political tension and has the ability to destabilize an otherwise optimistic growth scenario.

Conclusion

India has progressed significantly along the path of international integration on both trade and finance, after opening up of economy. There has been a substantial inflow of foreign investment into India since 1991 and it is a reflection of its sound growth prospects and implementation of significant policy reforms. India's integration with global capital markets in the last 25 years has led to volatile capital flows. Though India has been relatively conservative in liberalizing its capital account compared to other emerging economies, but the pace of opening up has increased over time. With increasing integration, there has been an increase in the volatility of private capital flows, particularly of portfolio, while that of FDI has declined. There RBI has been trying to keep a balance between increased access to global capital and the increased vulnerability due to volatility of capital flows. Another important aspect put forward in this paper is that financial integration may have made our country subject to greater volatility of consumption relative to output. Global integration is largely beneficial, but should be carefully managed to reap the benefits by all sections of the people.

India has to sustain the remarkable growth rates of per capita income achieved since 1991, which was propelled by rapid capital accumulation, increase in total factor productivity, and increase in exports. To avoid the middle-income trap and reach the status of a high-income country in the coming decades, India needs inclusive development to sustain growth, and the hitherto neglected but a highly significant factor that could influence India's long-term growth prospects—i.e. disparities in income and welfare, needs to be looked into.

References:

1. Bhattacharya Saugata 2017, Senior Vice President and Chief Economist, Axis Bank; 'Implications of India's Integration with the Global Economy: How to Balance the Trade-off on the Path to Internationalization', pp, 197-200, COLLOQUIUM: The Journal for Decision Makers, 42(3) 168-205; Sage Publications
2. Basu Kaushik and Maertens Annemie, 2007; 'The pattern and causes of economic growth in India'; Oxford Review of Economic Policy, Volume 23, Number 2, pp, 143-167
3. Bhatt Vipul and Virmani Arvind, (July 2005); 'Global Integration of India's Money Market: Interest rate Parity in India', Working Paper No 164: Indian Council for Research on International Economic Relations.
4. Buigut Steven and Rao Vadhidran k. 2011: 'International Financial Integration of Indian Money Market', International Journal of Economics and Finance', Vol.3, No. 4
5. Chinoy Sajjid Z(2017), Chief India Economist, J. P. Morgan; 'India and Deglobalisation: More Open and Exposed Than You Think', pp, 183-188, COLLOQUIUM: The Journal for Decision Makers, 42(3) 168-205; Sage Publications
6. Das Abhiman, et al, Sept 29, 2017; India's International Integration and Challenges to Sustaining Growth. COLLOQUIUM: The Journal for Decision Makers, 42(3) 168-205, pp, 168-171, IIM Ahmedabad; Sage Publications
7. Harawari H A B N Muhammad, Hamza M S; 2017; 'The Impact of Interest rate on Economic development: A Study on Asian countries', pp, 180-188, Research paper, International Journal of Accounting & Business Management, Vol.5 (No.1)
8. Jha Raghendra, 2018; 'The Indian Economy: Current Performance and Short- Term Prospects'. Article in SSRN Electronic Journal, DOI: 10.2139/ssrn.995106. Source: RePEc
9. Kaur Sumit, Patnaik R.K., 2014; 'Financial Market Development and Integration: A look at the Indian story', National Stock Exchange of India Limited.
10. Mutinda M D (2012); The Effect of Lending interest rate on Economic Growth in Kenya: D63/76111/2012
11. Mohan Rakesh, 2004, Former Deputy Governor of the Reserve Bank of India, Secretary, Department of Economic Affairs, Ministry of Finance, Government of India, 'Globalisation, financial markets and the operation of monetary policy in India', pp, 161-170, 162 BIS Paper No123
12. Patterson B and Lygnerud, (1999) K ; Directorate General for Research, European Parliament L-2929 Luxembourg, PE 168.283

13. Kumar, S. (2022). Strategic management of carbon footprint using carbon collectible non-fungible tokens (NFTS) on blockchain. *Academy of Strategic Management Journal*, 21(S3), 1-10
14. Kumar, S. (2021). Review of geothermal energy as an alternate energy source for Bitcoin mining. *Journal of Economics and Economic Education Research*, 23(1), 1-12
15. Dr. Naveen Nandal, Dr. Aarushi Kataria, Dr. Meenakshi Dhingra. (2020). Measuring Innovation: Challenges and Best Practices. *International Journal of Advanced Science and Technology*, 29(5s), 1275 - 1285.
16. Nandal, N. Impact of product innovation on the financial performance of the selected organizations: A study in indian context. *Psychol. Educ. J.* 2021, 58, 5152–5163.
17. Prasad E, Rogoff K, Wei S and Kose A.M (2003); International Monetary Fund, Sep 9, 2003; Effects of Financial Globalization on Developing Countries: Some Empirical Evidence
18. SenGupta Abhijit, 2017, Economist, India Resident Mission, Asian Development Bank (ADB); 'Macroeconomic Challenges of an Open Capital Account'; pp, 189-196, COLLOQUIUM: The Journal for Decision Makers, 42(3) 168-205; Sage Publications
19. Subbarao Duvvuri, 2017 Former Governor RBI: Challenges of Making Monetary Policy in a Globalising World, pp,172-175, COLLOQUIUM: The Journal for Decision Makers, 42(3) 168-205; Sage Publications
20. Sander Gil F, 2017, Senior Country Economist (India), World Bank; India Needs Inclusive Development to Sustain Growth, pp, 175-180, COLLOQUIUM: The Journal for Decision Makers, 42(3) 168-205; Sage Publications
21. Singh Gurbachan, Oct19, (2020); "The dark side of low interest rates", Article, Business Standard.
22. Sinha Richa, et al, 2021, 'Does interest rate changes have an impact on Nifty returns in the long run? A CoIntegration perspective', pp, 1338-1350, *Nat Volatiles Oils*; 8(4)
23. Saunders, A, and Schumacher, L, (2000); The Determinants of Bank Interest Rate Margins: An International Study. *Journal of International Money and Finance*, 19(6), 813-832
24. The Economic Times: 'why are RBI actions not bringing down the yield curve?'; article 04-Nov-2020