

The Linkages between Real and Financial Sectors in the Indian Economy- A Financial Social Accounting Matrix Approach

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In today's globalized world, the real and financial markets within an economy and across economies of the World are very strongly integrated. Understanding the nature of this integration and quantifying it with respect to an economy is very important to comprehend the transmission of any kind of shock – real or financial to the various sectors of the economy. This understanding also helps significantly in effective policy making. Against this backdrop, the present paper seeks to develop a financial social accounting matrix (FSAM) for India- one of the fastest growing emerging economies of the World. Based on a social accounting matrix for India 2007-2008, the present paper develops the financial social accounting matrix for the economy by incorporating income and financial flows into it. Then using this FSAM, the study presents an expanded multiplier analysis such that it incorporates three types of interlinkages – direct, indirect and induced for both backward and forward linkages as also valued added multipliers. The theoretical framework developed in the paper helps to calculate multipliers that provide quantitative assessment of the overall as well sectoral impact of any changes in the economy, be it in institutions or in industrial structural or in economic behaviour.

The novelty of the paper lies in the fact that it provides an alternative way of identifying the vulnerabilities and strengths between and across sectors in an economy. Second, it does it for India, an exercise which so far has not been attempted by any researcher to the best of the knowledge of the present researcher.

The initial findings indicate that sectors like trade, communication, transport, services have strong linkages with other sectors of the economy. While, sectors like agriculture and manufacturing share relatively weaker linkages with the other sectors of the Indian economy.