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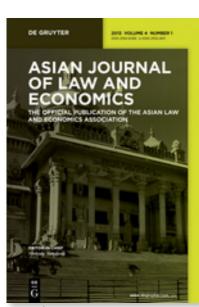
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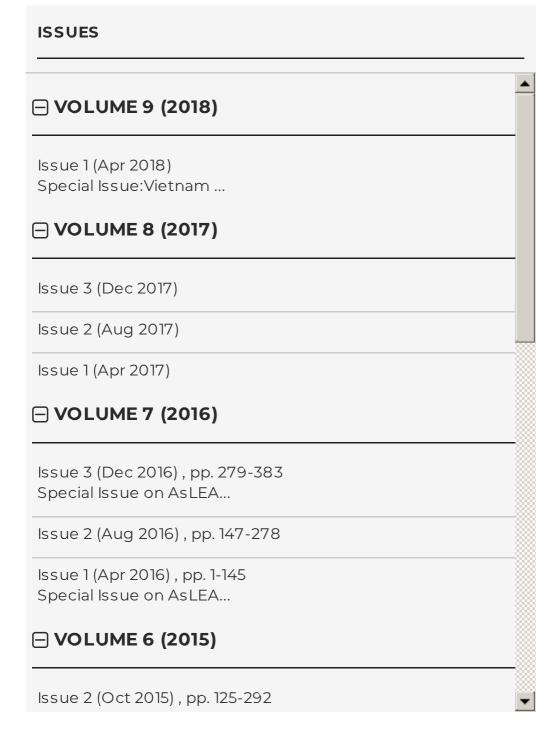
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## Law and Availability of Credit: Evidence from India

Francis Xavier Rathinam / Angara Viswasundara Raja

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Law and Finance literature shows that effective creditor and investor protection leads to vibrant financial markets. This paper hypothesizes that supporting laws that lead to swift enforcement and reduce the cost of availing legal services would help implement the

law effectively. The causal relationship between the procedural law and credit in India is explored using both macro and micro econometric techniques. Using a newly constructed time series index of procedural law innovations in India, this paper tries to identify the direction of causality and also explore the possible channels of impact in the Indian context. The results suggest that there is a long run causal relationship between law and finance, and the channel of impact is debt accumulation rather than total factor productivity. At a micro-level, using the staggered introduction of the Debt Recovery Tribunals (DRTs), a fast track court for financial disputes involving banks, we show that the procedural law innovation in India has resulted in higher disbursal of loans to the private sector by the banks.

**Keywords:** law and finance; economic growth; enforcement of law; Granger causality and cointegration



### About the article

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