

# Financial Regulation - insights from Indian Experience

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# Structure of presentation

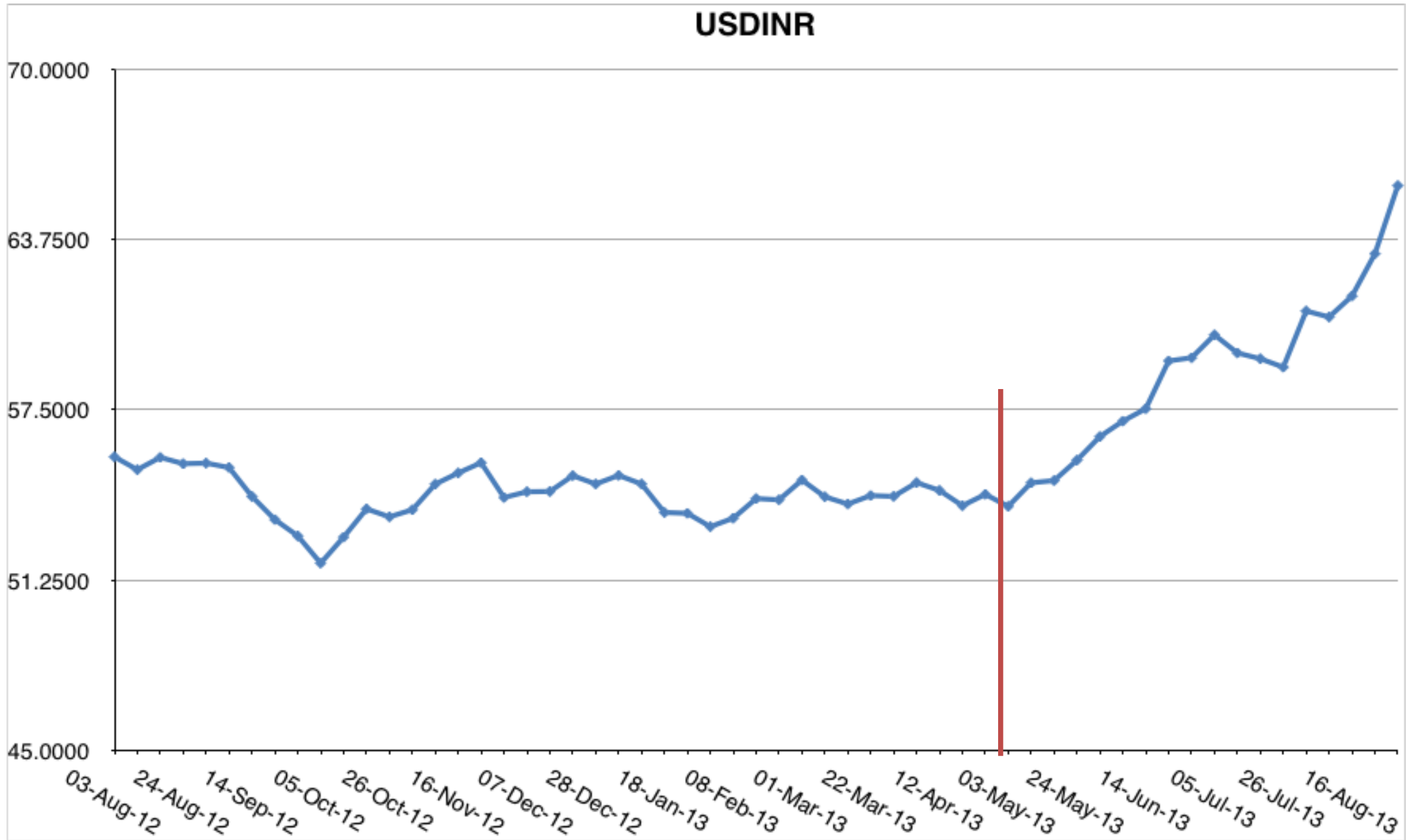
- Context
- Liberalising in a globalised world
- Financial sector liberalisation
- Capital account management
- Exchange rate management
- Banking Regulation
- Public Debt Management
- Financial Inclusion
- Conclusion

<b>Period</b>	<b>GDP</b>	<b>INF</b>	<b>SAV</b>	<b>INV</b>	<b>CAD</b>	<b>CGFD</b>	<b>GFD</b>	<b>DEBT /GDP</b>	<b>Ext- Debt- GDP</b>
<b>1991- 1997</b>	<b>5.7</b>	<b>9.6</b>	<b>22.3</b>	<b>23.5</b>	<b>-1.0</b>	<b>7.0</b>	<b>5.6</b>	<b>72.6</b>	<b>32.1</b>
<b>1997- 2003</b>	<b>5.4</b>	<b>4.6</b>	<b>24.6</b>	<b>25.0</b>	<b>-0.4</b>	<b>9.1</b>	<b>5.9</b>	<b>72.4</b>	<b>22.3</b>
<b>2003- 2008</b>	<b>8.7</b>	<b>5.5</b>	<b>33.3</b>	<b>33.6</b>	<b>-0.3</b>	<b>6.3</b>	<b>3.6</b>	<b>81.5</b>	<b>17.7</b>
<b>2008- 2013</b>	<b>7.0</b>	<b>7.5</b>	<b>32.7</b>	<b>35.7</b>	<b>-3.4</b>	<b>7.6</b>	<b>5.6</b>	<b>69.2</b>	<b>19.5</b>

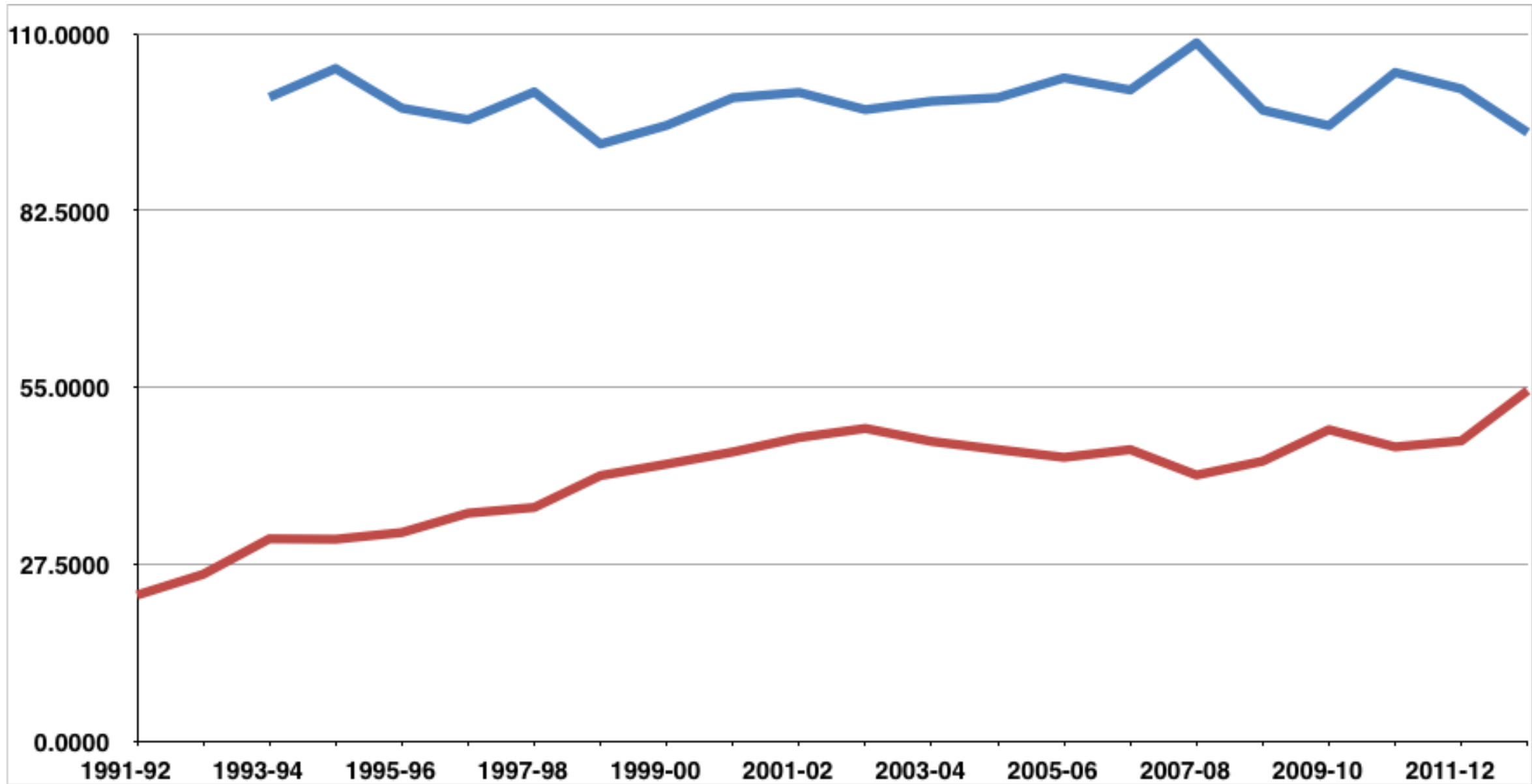
# Context – Financial sector indicators

Period	Interest rate	CD Ratio	Credit-GDP ratio	CRAR	GNPAR	NNPAR	ROA
1991-1997	16.0	55.3	20.1	6.5	16.6	8.7	0.3
1997-2003	11.3	53.8	24.1	11.7	12.1	6.6	0.7
2003-2008	12.0	67.9	39.5	12.6	4.2	1.7	1.0
2008-2013	11.4	75.2	50.8	13.1	2.8	1.2	1.0

# Rupee Dollar Movement



# REER and Exchange rate



— REER — exchange rate(Rs/USD)

# Liberalising in a global world

- Vulnerability increases as global integration increases
- Key focus on ensuring sound macro – economic fundamentals
- Trade off with growth limited

# Financial Sector Liberalisation

- Finance and growth relationship needs to be exploited
- Sequencing and calibration of reform important
- Financial sector for real sector not for financialisation
- Limiting bank exposures to certain asset classes such as real estate, stock, commodities, gold , consumer credit



# Capital Account Management

- Active management of capital account in context of volatile capital flows
- Priority to equity flows – FDI and FII
- Priority to longer term debt; short term restricted to trade credit
- Quantitative and price based policies for debt
- In outflows , priority to overseas business investment
- Cautious approach to financial sector access to overseas markets
- Preventing dollarisation

# Exchange rate management

- Flexible market determined rate with capital controls and some intervention to avoid undue volatility
- Prolonged overvaluation can create sudden shocks
- Risks of large unhedged exposures – unidirectional expectations
- Large and lumpy demand removed from market when supply is low
- Adequacy of reserves

# Banking Regulation

- Liberalisation requires stronger financial sector in wake of competition
- Currency mismatches turning into credit risk
- Increased volatility in yields and exchange rates implies more risk
- Financialisation and asset booms and volatility
- Strong balance sheets needed for financial inclusion

# Banking Regulation- Policy issues

- Approach towards foreign banks
- Small banks vs large banks
- Universal banks or differentiated licensing
- Unified regulatory architecture, twin peaks or ?
- Approach towards financial market development
- Deposit insurance and resolution
- Approach towards systemically important banks
- Basle 2 advanced approaches /Basle 3 implementation challenges

# Public Debt Management

- Move to auctions for government debt
- Ban on central bank lending to government in primary market
- Widening and deepening government securities markets
- Improving market infrastructure for trading, settlement and transparency
- Public debt management by RBI –conflict of interest ?

# Financial Inclusion

- Mandated or business driven ?
- Enabling role of RBI – KYC, branchless banking, mobile banking, SHGs, rural branches
- Unique bio metric identification
- Direct benefit transfers only through bank accounts
- Consumer protection- financial literacy and grievance redressal machinery
- Role of MFIs?
- Priority sector lending –needs revisiting ?

**THINK GLOBAL,  
ACT LOCAL**