GLOBALISATION: THE ROLE OF INSTITUTION BUILDING IN THE FINANCIAL SECTOR

(AN INDIAN CASE STUDY)

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Globalisation: The Role of Institution Building in the Financial Sector: The Indian Case

Abstract

This case study traces the evolution of the Indian financial system. India has had a long tradition of financial institution building. At Independence, India inherited a fairly diversified set up, both in respect of institutions and market. There was gradual increase in State control over the financial system until the initiation of the financial sector reform process. Under State control there was a tremendous increase in the spread of financial services across the economy. Financial sector reforms, introduced in the backdrop of a serious balance of payments crisis in 1991, have been aimed at increasing stability and efficiency of the system. Towards this end, the regulatory and supervisory framework has also moved from micro-governance towards macro-management; imparting greater freedom to both institutions and markets in resource allocation, pricing and risk-management. A salient feature of the reforms has been that of 'gradualism', which is credited with the advantage of enhancing macro stability, while fostering appropriate microeconomic linkages. The salutary effect of the institution building process in the post-reform period has been evident across both institutions and markets. The effect, however, has been uneven across sectors, reflecting largely the differential phasing in of sector specific reforms, keeping in view their overall systemic importance. The Indian experience also suggests that the sequencing of policies across institutions needs to be tempered with individual country-specific characteristics and circumstances, drawing upon international best practices. As a stance, the reforms are being treated not as a discrete event, but as a complementary and mutually reinforcing process. One might surmise, "...India of 2025 will be a very different place, and a much more dominant force in the world economy, than was the case twenty five years ago or at the beginning of the new millennium".

1. The Institutional Building Process

Early Days of Institution Building: Post-Independence Up to 1968

India has a long history of financial intermediation. The first bank in India to be set up on modern lines was in 1770 by an agency house. The earliest but short-lived attempt to establish a central bank was in 1773. India was also a forerunner in terms of development of financial markets. The Bombay Stock Exchange was functional as early as 1870. The first life insurance company in the country, Oriental Life Insurance Company, had been established as far back in 1818 and the first general (non-life) insurance company was set up in 1850. By Independence, India had a fairly well developed commercial banking system in existence. In 1951, there were 566 private commercial banks in India with 4,151 branches, the overwhelming majority of which were confined to larger towns and cities. Savings in the form of bank deposits accounted for less that 1 per cent of national income, forming around 12 per cent of the estimated saving of the household sector. The Reserve Bank of India (RBI) was originally established in 1935 by an Act promulgated by the then Government of India, but as a shareholders institution like the Bank of England. After India's independence, in the context of the need for close integration between its policies and those of the Government the Reserve Bank became a state owned institution from January 1, 1949. It was only in this year that the Banking Regulation Act was enacted to provide a framework for regulation and supervision of commercial banking activity. However, despite the widespread development of the banking system, the Indian financial system was characterized by lack of depth at the time of independence. Organized credit institutions had a negligible presence in rural India.

The entire process of institution building in the post-independence period revolved around the country's need to mobilize savings in order to raise the investment rate and to channel resources to identified sectors of the economy, notably agriculture and industry. The objective of economic development had assumed a sense of urgency in the 1950s with the launching of the Five Year Plans. At the beginning of planning in 1951, the Indian economy operated at relatively low levels of saving and investment. The Plan observed that the desirable rate of growth in output could be achieved only if investment could be stepped up substantially. The planning strategy was based on the concept of a mixed economy where both public and private sectors had a role to play with regard to investment activity and in mobilization of resources. The First Five Year Plan stated, "Central banking in a planned economy can hardly be confined to the regulation of the overall supply of credit or to a somewhat negative regulation of the flow of bank credit. It would have to take on a direct active role, firstly, in creating or helping to create the machinery needed for financing developmental activities all over the country and secondly, ensuring that the finance available flows in the directions intended".

Thus, the experience during this period suggested that institution building and development of the financial system was propelled by the vision of the country's central planners after Independence. The vision was to ensure that sectoral needs of credit to agriculture and industry were met in an organized manner. The RBI was vested with the major responsibility of developing the institutional infrastructure in the financial system. The commercial banking system was expanded to take care of the general banking needs of accepting deposits and extend short-term working capital to industry. In order to accelerate the pace of extension of banking facilities in the country and to provide a greater response to the credit needs of the cooperative sector, the biggest commercial bank State Bank of India was brought under the majority ownership of the RBI in 19**. To cater to the long-term financing needs of industry at the national level, and in the absence of a well-developed capital market, Development Finance Institutions (DFIs) were established under the majority ownership of the RBI. The RBI also set up a mechanism to provide concessional finance to these institutions. State Finance Corporations (SFCs) were set up to cater to long-term needs of industry at the State level. The financing needs of the rural agriculture sector was sought to be fulfilled by a three-tier cooperative banking structure which was complemented by UCBs at the urban sector level. The accelerated pace of public investment and industrialization during the end of 1950s and the early 1960s created conditions for stepping up private investment in industry. The Unit Trust of India came into existence in 1964 also initially sponsored by RBI to provide a channel for retail investors for participating in the capital market. Recognizing that exports did not receive much attention from the country's planners in the early years, an Export Risks Insurance Corporation was set up in July 1957, which was later converted into the Export Credit and Guarantee Corporation in January 1964.

The RBI concentrated on regulation, mechanisms and organizations in its role of institution building. For instance, following serious financial difficulties and the failure of several banks, including two relatively large scheduled banks, a deposit insurance scheme was set up in 1962 with the establishment of the Deposit Insurance Corporation.[1]

In sum, recognizing that financial development contributes significantly to growth, the central bank took on the responsibility of institutional development in the country. The result was a multi-institutional structure, although a state monopoly. The ownership structure of the institutions also reflected the closed state of development of the Indian economy at that time. However, it was not as if these institutions functioned efficiently.

In spite of the branch licensing policy of the 1960s, the progress was modest: the average population per bank office declined from 1,32,700 in 1950 to 64,000 in 1969. Although, there was a distinct increase in the share of credit to industry from 34 per cent in 1951 to 67.5 per cent in 1968, agricultural sector got a

[1] The Deposit Insurance Corporation (DIC) was established by an Act of the Parliament on January 1, 1962. With effect from July 15, 1978, it took over the undertaking of the Credit Guarantee Corporation of India Limited - a public limited company promoted by RBI on January 14, 1971 and it was called the Deposit Insurance and Credit Guarantee Corporation (DICGC). The objective was to integrate the twin and related functions of giving insurance protection to small depositors in banks and providing guarantee cover to credit facilities extended to certain categories of small borrowers particularly those belonging to the weaker sections of the society.

little over 2 per cent of total bank credit. These features of bank credit were not consistent with the goal of achieving equitable allocation of credit and the relative priorities set out in the Five Year Plans.

Bank Nationalisation and After: 1969–1990 (The Pre-Reform Years)

Even though the Indian banking system made considerable progress both functionally and in terms of geographical coverage during the above period, there were still many rural and semi-urban areas, which were not served by banks. Moreover, the large industries and big and established houses tended to enjoy a major portion of the credit facilities, to the detriment of the priority sectors such as agriculture, small-scale industries and exports. Thus, to bring about a wider diffusion of banking facilities and changes in the pattern of bank lending, the scheme of social control over banks that envisaged organisational and legislative changes was initiated by the Government. The systems of credit planning which identified priorities for loans and advances and Lead Bank Scheme that sought to make the banking system an instrument of development were instruments of social control over banks. This transitory phase was followed by the nationalisation of banks.

In July 1969, these 14 largest commercial banks were nationalised as a major step to ensure adequate credit flow into genuine productive areas in conformity with Plan priorities. Bank nationalisation served to intensify the social objective of ensuring that financial intermediaries fully met the credit demands for productive purposes. Two significant aspects of nationalisation were (i) rapid branch expansion and (ii) channelling of credit according to plan priorities. To meet the broad objectives, banking facilities were made available in hitherto uncovered areas, so as to enable them to not only mop up potential savings and meet the credit gaps in agriculture and small-scale industries,[2] thereby helping to bring large areas of economic activities within the organised banking system.[3] As a consequence, the perceived need of the borrower gained primacy over commercial considerations in the banking sector[4]. In April 1980, six more private sector banks were nationalised, thus extending the domain of public control over the banking system.

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[2] The definition of a small-scale industry has undergone a transformation over the years. In 1960, a small-scale industry was defined as one with gross value of fixed assets not exceeding Rs 5 lakh. This figure has been gradually revised upwards and presently stands at Rs. 0.01 billion.

[4] Bank assets, for instance, comprised 66 per cent of total assets of banks and financial institutions in 1970-71, which rose to 84 per cent in 1980-81, but declined subsequently thereafter to about 70 per cent during the period 1991-92 to 1994-95.

By the middle of the 1970s, it was felt that the task of providing agricultural credit on the requisite scale could not be met by commercial banks, unless they acquire specialised knowledge of rural setting. Against this background, Regional Rural Banks (RRBs) were set up in 1975 to fill this gap in financing. Consequently, by the end of 1975, three separate institutional arrangements – commercial banks, cooperative banks and RRBs - known as the multi-agency approach for providing credit in the rural areas emerged. Establishment of National Bank for Agriculture and Rural Development (NABARD) in 1982 was an important landmark in the history of cooperative credit. The objective of NABARD was to create institutional arrangements at national level for financing, coordinating, guiding, and controlling cooperative credit system. To facilitate this, NABARD was given certain regulatory control over rural credit cooperatives.

In order to give specialized and focused attention to different segments of industry, certain other specialised financial institutions have come into existence since the 1980s, that, in a broad sense, could be included in the genre of DFIs. Apart from NABARD (catering to the agricultural sector), Export-Import (EXIM) Bank of India (catering to export finance), Small Industries Development Bank of India (SIDBI) (catering to credit needs of small industries), and National Housing Bank (NHB) (catering to housing finance). Most recently, the Infrastructure Development Finance Company (IDFC) came into being in 1997 to promote investment of the private sector in infrastructure. In addition to their roles as DFIs, NABARD and NHB have also been entrusted with certain supervisory responsibilities.

There were attempts to develop the capital markets during the 1980s by increasing participants and instruments, improving transparency, reducing transaction costs and ensuring safety in settlement procedures. Companies were facing severe constraints in raising money through equity as they faced tight regulation. Issuance of capital through the equity route, debentures and public sector bonds emerged as new instruments for raising resources in the primary market. The secondary market also witnessed an increase in number of stock exchanges, listed companies and market capitalisation. As the stock markets developed, efforts were diverted towards greater transparency and investor protection. Several specialised institutions such as credit rating agencies (e.g. CRISIL, CARE and ICRA) and custodial service provider companies (e.g. Stock Holding Corporation of India Limited (SHCIL)) also took shape during this period. An important development was the establishment of the Over the Counter

Exchange of India (OTCEI). The most important development during this period was the setting up of the Securities and Exchange Board of India (SEBI) in 1988.[5]

The government securities market was mainly a captive market dictated by the borrowing needs of the Government. Banks were required to hold a certain proportion of their liabilities in the form of government securities. This statutory liquidity ratio (SLR) was increased gradually as the borrowing needs of the Government increased. In order to facilitate the large borrowing requirements of the Government, interest rates on Government securities were artificially pegged at low levels, unrelated to market conditions. The provision of fiscal accommodation through ad hoc treasury bills (issued by RBI on tap at a fixed interest rate of 4.6 per cent) led to high levels of monetisation of fiscal deficit during the major part of the 1980s. In order to check the effects of such large-scale monetisation, the CRR was frequently increased to control liquidity. The money market, which was intended as a market for equilibrating the demand and supply of funds in the inter-bank market was narrow and relatively illiquid with control on interest rates. It was only in the late 1980s that the interest rate in the inter-bank call money market was deregulated and new instruments like the Commercial Paper and Certificates of Deposits were introduced to make the market more liquid.

The dominance of the public sector and state ownership persisted during the 1980s. The financial system was shaped and architectured to meet the objectives of the Government enunciated through the Plans. Hence, both the liabilities and asset sides of the balance sheets of the financial institutions were controlled. The authorities believed that the main objectives of these institutions were to mobilise savings at low cost and deploy them into identified priority sectors at subsidised rates. Markets did not exist in the true sense. Capital markets were controlled and hence transaction costs were high. The government securities market was just a captive market for raising debt for the Government and the money market was restricted to the inter-bank call money market where interest rates were controlled for most part of the 1980s. Such control resulted in several inefficiencies creeping into the banking system. Repression assumed the form of a high and administered interest rate structure with a large measure of built-in cross-subsidisation (in the form of minimum lending rates for commercial sector), high levels of pre-emption of primary and secondary reserve requirements, in the form of cash reserve ratio

[5] This organisation was set up as an administrative body and later received statutory status in 1992 by enacting the SEBI Act and making it as a regulatory body to promote orderly development of the capital market. SEBI has also been since vested with the concurrent/delegated powers regarding the provisions under the Companies Act, 1956 and Securities Contract Regulation Act, 1956. SEBI governs all stock exchanges and securities transactions in India. Besides, all stock brokers, share transfer agents, bankers to an issue, trustees of trust deed, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such intermediaries who are associated with the securities market are obliged to register with the SEBI.

(CRR) and statutory liquidity ratio (SLR). On the eve of the reforms in 1991, the SLR and cash reserve ratio (CRR) together pre-empted as much as 63.5 per cent of the bank's deployable resources. Retail lending to riskier areas of business with the 'free' portion of bank's resources engendered 'adverse selection' of borrowers. With limited prospects of recovery, this raised costs and affected the quality of bank assets. Quantitative restrictions (branch licensing and restrictions on new lines of business) and inflexible management structures severely constrained the operational independence and functional autonomy of banks. Inflationary expectations and the inequitable tax structures exacerbated the strains on the exchequer, since resources for developmental purposes were not readily forthcoming. As the quality of asset portfolio of banks rapidly deteriorated, it was evident that the profitability of the banking system was severely compromised. In addition, the widespread market segmentation and the constraints on competition exacerbated the already fragile situation. The market for short-term funds was reserved for banks and the market for long-term funds was the exclusive domain of Development Financial Institutions (DFIs)[6]. Direct access of corporate borrowers to lenders (disintermediation) was strictly controlled and non-bank financial companies (NBFCs) were allowed to collect funds only for corporates.

External Sector Problems in the Early 1990s – Initiation of the Reform Process and Macroeconomic Stance

These adverse developments coupled with the balance-of-payments crisis, which followed in the wake of the Gulf War of 1990 as also the erosion of public savings and the inability of the public sector to generate resources for investment rapidly brought forth the imperatives for financial sector strengthening in India. Although these reforms were also provoked by the globalisation trends around the world almost around the same time (Williamson and Mahar, 1998), there was a distinct Indian flavour in the pace and sequencing. As Reddy (2000) has observed, the Indian approach to financial sector reforms is based on pancha sutra or five principles-cautious and proper sequencing; mutually reinforcing measures; complementarity between reforms in the banking sector and changes in fiscal, external and monetary policies; developing financial infrastructure; and developing financial markets. While this approach is at variance with the 'big-bang' approach pursued in several countries, the gradualist approach is credited with the advantage of enhancing macro stability, whilst at the same time, fostering the microeconomic linkages. One reason for gradualism was simply because reforms were not

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[6] Development Finance Institutions were institutions set up to cater essentially to the medium and long term project financing requirements of the industrial sector.
[8] NBFCs are a set of institutions catering to diverse investor needs such as hire purchase, equipment leasing and also making loans and investments. Their major differences with banks are (a) they are prohibited from issuing chequeable deposits and (b) limited fixed assets and lower degree of regulation.

introduced against a background of prolonged economic crisis or system collapse of the type which would have created a widespread desire for, and willingness to accept radical restructuring.

The reforms were introduced in June 1991 in the wake of a balance-of-payments crisis, which was certainly severe. It was not a prolonged crisis; on the contrary, it erupted suddenly at the end of a period of healthy growth in the 1980s, when the Indian economy grew at an annual average about 5.5 per cent. . Although modest by international standards, this was much better than India's previous experience of 3-3.5 per cent growth. Second, by the beginning of the 1980s, it began to be recognized that the system of controls, with its heavy dependence on the public sector and a highly protected inward-oriented industrialization strategy, could not deliver rapid growth in an increasingly competitive world environment. Several initiatives were undertaken in the second half of the 1980s to mitigate the rigours of the control regime: direct tax rates were reduced, the role of the private sector was expanded and licensing controls on both trade and foreign investment were liberalised. However, these changes were marginal rather than fundamental in nature, amounting more to loosening controls and operating them more flexibly rather than a comprehensive shift away from a regime of controls. Since the economy was seen to have responded well to these initiatives, with an acceleration of growth in the 1980s, it created a strong presumption in favour of evolutionary change. The gradualism was the outcome of India's democratic and highly pluralistic polity in which reforms could be implemented if based on a popular consensus (Ahluwalia, 1993). More importantly, the favourable experience of liberalisation in the 1980s created an intellectual climate for continuing in the same direction. While the crisis of 1991 favoured bolder reforms being ushered, the pace had to be calibrated to what would be acceptable in a democracy. Second, structural adjustment measures were undertaken simultaneously with the liberalisation programme, in order to harness the stabilising influence associated with certain measures of liberalisation. Third, macroeconomic stability was made a concurrent pursuit. Fiscal and external sector policies supported monetary policy in maintaining overall balance. The exchange rate was made flexible, foreign investment was permitted and the current account was made fully convertible. Prudential regulations were put in place to ensure safety and soundness, while transparency and accountability in operations were aimed at restoring the credibility of the banking system. Fourth, recognising the inter-linkages between the real and financial sectors, wide-ranging reforms were also undertaken in the real sector so that financial intermediation kept pace with underlying economic activity.

1991 and After: The Reform Years

Major Policy Stance of Reform

The reform in the financial sector was attuned to the reform of the economy, which now signified opening up. Greater opening up underscores the importance of moving to international best practices quickly since investors tend to benchmark against such best practices and standards. Since 1991, the Indian financial system has undergone radical transformation. Reforms have altered the organisational structure, ownership pattern and domain of operation of banks, DFIs and NBFCs. The main thrust of reforms in the financial sector was the creation of efficient and stable financial institutions and markets. Reforms in the banking and non banking sectors focused on creating a deregulated environment, strengthening the prudential norms and the supervisory system, changing the ownership pattern, and increasing competition.

The policy environment was stanced to enable greater flexibility in the use of resources by banks through reduced statutory pre-emptions. Interest rate deregulation rendered greater freedom to banks to price their deposits and loans and the Reserve Bank moved away from micromanaging the banks on both the asset and liability-side. The idea was to impart operational flexibility and functional autonomy with a view to enhancing efficiency, productivity and profitability. The objective was also to create an enabling environment where existing banks could respond to changing circumstances and compete with new domestic private and foreign institutions that were permitted to operate. Instead, the Reserve Bank focused on tighter prudential norms in the form of capital adequacy ratio, asset recognition norms, provisioning requirements, exposure norms and improved level of transparency and disclosure standards. As the market opens up, the need for monitoring and supervising becomes even more important systemically. The greater flexibility and the prudential regulation were fortified by 'on-site inspections' and 'off-site surveillance'. Furthermore, moving away from the closed economy objectives of ensuring appropriate credit planning and credit allocation, the inspection objectives and procedures, have been redefined to evaluate the bank’s safety and soundness; to appraise the quality of the Board and management; to ensure compliance with banking laws and regulation; to provide an appraisal of soundness of the bank's assets; to analyse the financial factors which determine bank's solvency and to identify areas where corrective action is needed to strengthen the institution and improve its performance. A high-powered Board for Financial Supervision (BFS) was constituted in 1994, with the mandate to exercise the powers of supervision and inspection in relation to the banking companies, financial institutions and non-banking companies. Currently, given the developing state of the financial system, the function of supervision rests with the Reserve Bank.

Role of Competition

It is generally argued that competition increases efficiency. Competition has been infused into the financial system by licensing new private banks since 1993. Foreign banks have also been given more liberal entry. New private sector banks constituted 11 per cent of the assets and 6.4 per cent of the net profits of scheduled commercial banks as at end-March 2002. The respective shares of foreign banks were 7.0 per cent and 7.3 per cent. More recently, in February 2002, the RBI announced guidelines for foreign direct investment in the banking sector up to a maximum of 49 per cent. The Union Budget 2002-03 announced the intention to permit foreign banks, depending on their size, strategies and objectives, to choose to operate either as branches of their overseas parent, or, as subsidiaries in India. The latter would impart greater flexibility to their operations and provide them with a level-playing field vis-à-vis their domestic counterparts. While these banks have increased their share in the financial system, their presence has improved the efficiency of the financial system through their technology and risk management practices and provided a demonstration effect on the rest of the financial system.

Issues on Capital Adequacy and Government Ownership in the Banking Sector

In a globalised system, banks tend to get rated if they have to enter the market to raise debt or equity. Internationally, banks follow the Basel norms for capital adequacy. Banks were required to adopt these norms for maintaining capital in a phased manner in order to avoid any disruption. However, as a result of past bad lending, a few banks found it difficult to maintain adequate capital. The Government had contributed to the paid-up capital of banks to the tune of Rs.40 billion between 1985-86 and 1992-93. In view of the limited resources and the many competing demands on the fisc, it became increasingly difficult for the Government to contribute any substantial amount required by nationalised banks for augmenting their capital base. In this context, Government permitted banks that were in a position to raise fresh equity to so to meet their shortfall in capital requirements; the additional capital would enable banks to expand their lending. The nationalized banks are enabled to dilute their equity of Government of India to 51 per cent following the amendment to the Banking Companies (Acquisition & Transfer of Undertakings) Acts in 1994, bringing down the minimum Government's shareholdings to 51 per cent in PSBs. RBI's shareholding in SBI is subject to a minimum of 55 per cent. Most of the public sector banks have already raised capital from the market. The Government proposed, in the Union Budget for the financial year 2000-01, to reduce it's holding in nationalised banks to a minimum of 33 per cent "while maintaining the public sector character of these banks". The diversification of ownership of PSBs has made a qualitative difference to the functioning of PSBs since there is induction of private shareholding and attendant issues of shareholder's value, as reflected by the market capitalisation, representation on the board, and interests of minority shareholders. There is representation of private shareholder when the banks raise capital from the market. Several public sector banks have also accessed the capital both in India, and abroad through Global Depository Receipts. Several banks have raised subordinated debt through the private placement route for inclusion under tier-II capital.

Institutional Innovations for Recovery Management

With increasing globalisation and with diversified ownership where credit rating agencies constantly review the strength of banks, managing the level of NPLs becomes very critical. It is a fact that the most critical condition for bringing about an improvement in the profitability of banks is a reduction in the level of non-performing loans (NPLs). Illustratively, as at end-March 1998, the NPLs of commercial banking system stood at 14.7 per cent of total advances. The comparable figures for other emerging economies in Asia and Latin America were in the range of 5-10 per cent (Hawkins and Mihaljek, 2001). In view of this, the RBI along with the Government, has initiated several institutional measures to contain the levels of NPLs. Notable among these include Debt Recovery Tribunals, Lok Adalats (people's court) and Asset Reconstruction Companies. Settlement Advisory Committees were formed at regional and head office levels of commercial banks. Corporate Debt Restructuring (CDR) mechanism has been institutionalised in 2001 to provide a timely and transparent system for restructuring of large corporate debts with the banks and financial institutions. Consequent upon the announcement in the Union Budget 2002-03, the CDR mechanism was revised. While several measures, as mentioned above, have been undertaken towards preventing the accumulation of NPLs, in the absence of creditor rights, the problem has tended to persist. To address this aspect, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act was enacted in April 2002. The Act empowers secured creditors to enforce any security interest credited in its favour without any intervention of court or tribunal. A set of guidelines has been issued to financial entities, so that the process of asset reconstruction proceeds on smooth lines. Several institutions have initiated steps towards establishment of Asset Reconstruction Companies (ARCs).

Role of Information Technology in the Financial Sector

Operating in a globalised environment requires a high level of technological development. In recent years, information technology developments have made a major presence in the Indian banking sector. Recognising the need for providing a sound platform for facilitating the absorption of technology by banks, the RBI had set up the Institute for Development and Research in Banking Technology (IDRBT) in 1996, which is poised as an autonomous centre for development and research in banking technology and also for providing essential core networking functions for banks. The IDRBT has set up the country's financial communication backbone called the INFINET (INdian FInancial NETwork) – which is a Wide Area Network based on Satellite (using VSATs) and terrestrial lines. The network is in operation since 1999 and is available for the exclusive use of banks and financial institutions, as a Closed User Group. With the benefits ushered in by the INFINET, more products have been introduced by the RBI, using the INFINET backbone. These include the Negotiated Dealing System (NDS), which is a system that provides for screen based trading of Government securities and the impending introduction of the Real Time Gross Settlement System (RTGS), which provides for a one-to-one settlement of funds flows on a continuous or real-time basis. Recognising that payment and settlement systems form the lifeline of the economy and based on technological developments, various bodies within RBI are closely monitoring the reforms process. At the apex layer in the institutional structure is the National Payments Council (NPC). The Council, constituted in May 1999, is entrusted with the task of laying down the broad policy parameters for designing and developing an integrated state-of-the-art, robust payments and settlement system for the country.

Although there was a broad commonality in the objectives and instruments of reforms for all types of financial intermediaries, the pace and sequencing in each segment of the financial sector was determined keeping in view the state of development of each segment. Thus, in view of their overwhelming dominance in the financial system and their systemic importance, reform measures were first introduced for commercial banks and subsequently extended to other financial intermediaries such as DFIs, NBFCs, cooperative banks and the insurance sector.

Reform of Development Finance Institutions (DFIs)

Along with the changed operating environment for banks in a globalised scenario, the regulatory framework for DFIs has undergone a significant change. On the supply side, the access of DFIs to low-cost funds has been withdrawn, whereas on the demand front, they have to compete with banks for long-term lending. DFIs have reacted to these developments by raising funds at competitive rates from the market through public issue and increasingly, through private placements, resulting in an overall increase in their cost of funds. Likewise, several DFIs have witnessed an erosion of their asset quality, especially in cases where these industries have affected by downturn or have undergone transformation/ mergers/ sizeable exposures. Faced with rising resource cost, increased competition and decline in asset quality, DFIs have responded by diversifying into para-banking activities (merchant banking, advisory services). As a consequence, there was general decline in their term-lending operations, while their short-term lending and non-fund based operations increased. In 2002, ICICI converted itself into a bank. As the operations of IDBI came under strain, the RBI came out with a policy in 2001 to transform the DFI by evolving a cautious transition path to become a bank. Amendments to the IDBI Bill were recently approved in the Parliament. The amendments ensure that the new bank continues to be a development bank to provide term lending to large and medium industry.

Divestment of RBI ownership in Financial Institutions

The RBI currently holds shares in the National Housing Bank (NHB), Infrastructure Development Finance Company (IDFC), Deposit Insurance and Credit Guarantee Corporation (DICGC), NABARD and Bharatiya RBI Note Mudran Limited (BRBNML), a currency printing press. In line with the thinking that the RBI should not own the institutions it regulates, it has already initiated transfer of ownership in NHB and NABARD to the Government. In respect of DICGC, RBI's proposal for framing a new Act to make it consistent with financial sector liberalization has been accepted by the Government. It is proposed to convert DICGC into Bank Deposits Insurance Corporation (BDIC) to effectively deal with depositors' risk and distressed banks.

Reforms in the Non-Banking Finance Companies (NBFC) Sector

With regard to NBFCs[8], RBI had limited powers to regulate the asset side of the balance sheet of these entities. The legislative focus was primarily aimed at moderating their deposit mobilisation activity by linking the quantum of deposit acceptance to their net owned fund. In order to strengthen the regulatory framework, the RBI (Amendment) Act, was promulgated in 1997. The salient features of the amended provisions pertain to the revised entry point norms, compulsory registration with RBI, maintenance of certain percentage of liquid assets in the form of unencumbered approved securities, creation of a reserve policy and transferring certain proportion (not less than 20 per cent) of profits every year. The thrust of the regulation since 1998 was essentially focused on NBFCs accepting public deposits. In order to buttress the regulatory measures, the nature and extent of supervision was reoriented based on three-fold criteria of (a) size of the NBFC (defined in terms of assets/income); (b) the type of activity performed (loan company/hire purchase company/investment company/equipment leasing company); and, (c) the acceptance or otherwise of public deposits. A three-tier supervisory mechanism, based on on-site inspection, off-site surveillance and external auditing was instituted. The regulatory focus is being gradually aligned in order to enable the sector operate on healthy lines and safeguard depositors' interests.

Reforms in the Insurance Sector

Insurance business remained within the confines of public sector until the late-1990s. Subsequent to the passage of the Insurance Regulation and Development (IRDA) Act in 1999, several changes were initiated, including allowing newer players/joint ventures to undertake insurance business on risk-sharing/commission basis. Liberalisation of entry norms in insurance segment has brought about a sea change in product composition. It has been argued that while in the past, tax incentive was the major driving force of the insurance industry, particularly life insurance industry, in the emerging situation the normal driving force of an insurance industry are taking important roles (IRDA, 2002). Driven by competitive forces and also the emerging socio-economic changes including increased wealth, education and awareness about insurance products have resulted in introduction of various novel products in the Indian market. Along with the changing product profile, there have also been salutary improvements in consumer service in recent years, driven largely by the impact of new technology usage, better technical know-how consequent upon foreign collaboration and focused product targeting, dovetailed to specific segments of the populace as well as cross-selling of products through bancassurance. Insurance companies are also taking active steps to venture into innovative distribution channels for their products over and above creating strong agency network.

Reforms in the Capital Market

The Indian capital market was opened up for foreign institutional investors (FIIs) in 1992. Foreign investors whether registered as FII or not, may also invest in Indian securities. It is imperative that when the overall economic policy encourages foreign investment, the institutional structure in the financial sector responds to provide the market infrastructure on par with international standards. Apart from sound regulation and supervision, foreign investors would seek transparent trading mechanism and safe payment and settlement systems. It needs to be understood that foreign investment comes in search of profits and hence a deep and liquid secondary market that allows easy entry and exit is a precondition. As part of the reform process, attempts are ongoing towards structural transformation of the capital market to bring it at par with their developed counterparts. With the objective of improving market efficiency, increasing transparency, integration of national markets and preventing of unfair practices regarding trading, a package of reforms comprising measures to liberalise, regulate and develop capital market was introduced. Since 1992, reform measures have mainly been focused on regulatory effectiveness, boosting competitive conditions, reducing information asymmetries, mitigating transaction costs and controlling of speculation in the securities market. In addition, Capital Issues (Control) Act, 1947 was repealed in 1992 paving the way for market forces to play their role in the determination of price of issue and allocation of resources for competing uses. In order to provide greater transparency, anonymity, and lower transaction costs, the 'open outcry' system prevalent earlier, was replaced with 'screen-based trading'. The National Stock Exchange (NSE) was incorporated in 1992. The aim of NSE has been to provide access to investors from across the country on an equal footing. In 1995, the Bombay Stock Exchange (BSE) too shifted to a limit order book market. In order to ensure free and speedy transferability of securities, the Depositories Act, 1996 was enacted. Dematerialisation of securities was started in the depository mode. It also provided for the maintenance of ownership records in a book of ownership of securities electronically by book entry without making the securities move physically from transferor to transferee. Another important development under the reform process has been the opening up of mutual funds to the private sector in 1992, which ended the monopoly of Unit Trust of India (UTI). These steps have been buttressed by measures to promote market integrity.

The Indian corporate sector has also been allowed to tap international capital markets through American Depository Receipts (ADRs), Global Depository Receipts (GDRs), Foreign Currency Convertible Bonds (FCCBs) and External Commercial Borrowings (ECBs). This would imply that Indian corporates might face higher disclosure norms in foreign markets. Corporates would also need to incorporate changes in their corporate governance practices, follow internationally accepted accounting standards. Thus there are great efficiency enhancing values in permitting foreign investment into our country as also investment abroad, Similarly, Overseas Corporate Bodies (OCBs) and non-resident Indians (NRIs) have been allowed to invest in Indian companies. In fact, India has skilfully used the clan of non-resident Indians to generate foreign deposits and investments into the country. Indian institutions have responded to external and internal political uncertainties that have affected the country's ratings and markets by evolving market-based deposit schemes for non-resident Indians.

Reforms in the Debt Market

The opening up of the economy and changes in the monetary-fiscal interface have necessitated a whole set of new institutional responses in the money and debt markets. Interest rate deregulation in the banking sector requires the development of a risk-free yield curve in the Government Securities market. It also requires a vibrant money market that is able to transmit the monetary impulses emanating from the central bank. The RBI took on the responsibility of developing the money and Government Securities market in view of their importance in transmitting monetary policy signals and providing a risk free yield curve. The initial reforms of moving to an auction based system for issuing Government debt, terminating the system of automatic monetisation of fiscal deficit were complementary to interest rate deregulation in the banking sector. Reforms also focused on removal of structural bottlenecks, introduction of new players and instruments, free pricing of financial assets, relaxation of quantitative restrictions, improvement in trading, clearing and settlement practices, greater transparency, etc. Reforms encompassed regulatory and legal changes, technological upgradation and refinement of the market microstructure.

In the initial years of reforms, with the objective of building up institutional and market microstructure, RBI promoted institutions, among others, for developing money and government securities markets. The philosophy of the RBI in its supply-leading role was to promote institution and then divest its holdings as the market matured. The strategy being to avoid the problems of moral hazard of the lender of last resort and the conflict between ownership and regulation and supervision. Thus, the RBI promoted the Discount and Finance House of India Ltd. (DFHI) for activating and deepening the money market and the Securities Trading Corporation of India Ltd. (STCI) for developing an active secondary market for Government Securities and PSU bonds. The RBI has since disinvested its holdings in DFHI and STCI. The RBI also appointed Primary Dealers, with liquidity support, to act as 'market makers' and underwrite the Government securities. The system of PDs was adopted from advanced countries that used it to widen and deepen markets. To widen the market and infuse foreign funds, foreign institutional investors were allowed to invest in Government dated securities and treasury bills, both in primary and secondary markets subject to certain ceilings. While the FIIs would add to the number of players in the market, the institutional innovations sought to increase the instruments, and add to the liquidity in the market. To expand the market to retail investors, the RBI permitted other depositories and clearing houses to open Subsidiary General Ledger (SGL) accounts with it to facilitate custodial and depository services for FIIs in Government dated securities. Recently, the Government securities market has been thrown open to retail investors through the introduction of screen-based trading. The RBI is also giving unstinted support to development of the technological infrastructure in the financial markets for ensuring greater efficiency and transparency in operations as well as risk free settlement. In this process it has mounted the Negotiated Dealing System and has encouraged the setting up of Clearing Corporation of India Ltd.

Thus, after the reforms were initiated and the economy opened up, the institutional structure also responded by opening to competition, altering the organizational structure, pricing products on market basis, enhancing the regulatory and supervisory standards, increasing the transparency in operations, upgrading technology and adopting enabling legislation. Notwithstanding these changes, some fundamental requirements of channeling credit to certain priority sectors are still being met through the financial system through some form of control. However, the financial system is substantially regulated and had adapted to international best practices. The reforms had a beneficial impact on the financial system.

2. Impact of Financial Institution Building Process in India

There is evidence to indicate that the institution-building process in the financial sector has benefited economic development of the country. Liberalisation with a social touch enabled the financial institutions and products to reach out to the various segments of Indian population, which hitherto did not have access to such facilities. The process also boosted savings in financial assets as well as capital formation.

The impact of deregulation of the financial sector has been positive. The has been a general improvement in the efficiency of the financial sector reflected by factors such as reduced cost of intermediation, increased profitability and reduced operating expenditure of financial entities. The stability of the financial institutions has also improved significantly as testified by factors such as, strengthened capital base and improved asset quality. The product composition, technology usage, risk-management practices of Indian financial institutions and markets have also undergone a sea change over the last decade. As is expected of any reform process, all financial entities in India, however, have not yet been able to equally adjust to the forces of globalisation.

Macroeconomic Performance

During the first three decades after Independence, the growth rate hovered in the range of 2.5-3.5 per cent. The first signs of liberalisation in the 1980s propelled growth to a higher trajectory of 5.8 per cent. The entire period was essentially marked by a closed economy framework with limited opportunities for growth enhancement apart from domestic industrial activities. The opening up of the economy in the 1990s has accelerated the growth levels close to the 6 per cent mark. There are two distinct phases evidenced in this case: the modest growth phase during the first-half of the 1990s at around 5.5 percent, and the second-half witnessing a much higher growth rate of 6.1 per cent. Two features of this growth process deserve a mention: first the growth in the 1990s, unlike that in the 1980s, was more broad-based, and secondly, it was achieved despite a number of coalition Governments in power.

The decade of the 1990s has been remarkable in experiencing two phases of inflation: a high inflation phase of around 10 per cent during the first half, and a much lower inflation level of around 6.8 per cent during the second half. Inflation has abated even further and stands at an average of 4.1 per cent during the initial years of the twenty-first century.

The growth enhancement in the open economy phase is more evident from the movements of per capita income. These average annual growth rates were 1.5 per cent during the first two decades after Independence. It plunged to 0.5 in the 1970s followed by a wide upsurge to over 3 per cent during the 1980s. The annual average growth in per capita income at 4.5 per cent during the second-half of the 1990s has been particularly significant.

Another important dimension of the positive influence of open economy approach can be judged from the strengthening of India’s external account of the balance of payments. From a meagre reserve position below US $ 1 billion in the early 1990s, India’s external reserves have recently surpassed US $ 80 billion. Inflow of foreign investment has also increased significantly indicating that India has emerged as a favoured investment destination among the emerging market economies.

Scheduled Commercial Banks

The visible impact of institution building is evidenced both in terms of widening as well as deepening of the intermediation process. The banking system has acquired a wide reach, judged in terms of expansion of branches and the growth of credit and deposits. Illustratively, between 1969 and 2002, deposits recorded an average annual growth of around 8 per cent, credit growth was of the order of 7 per cent, whereas bank offices recorded a growth rate of nearly 3 per cent. However, the growth pattern was not uniform over the decades and the growth rates have, in fact been lower in the decade of the 1990s (Table 1).

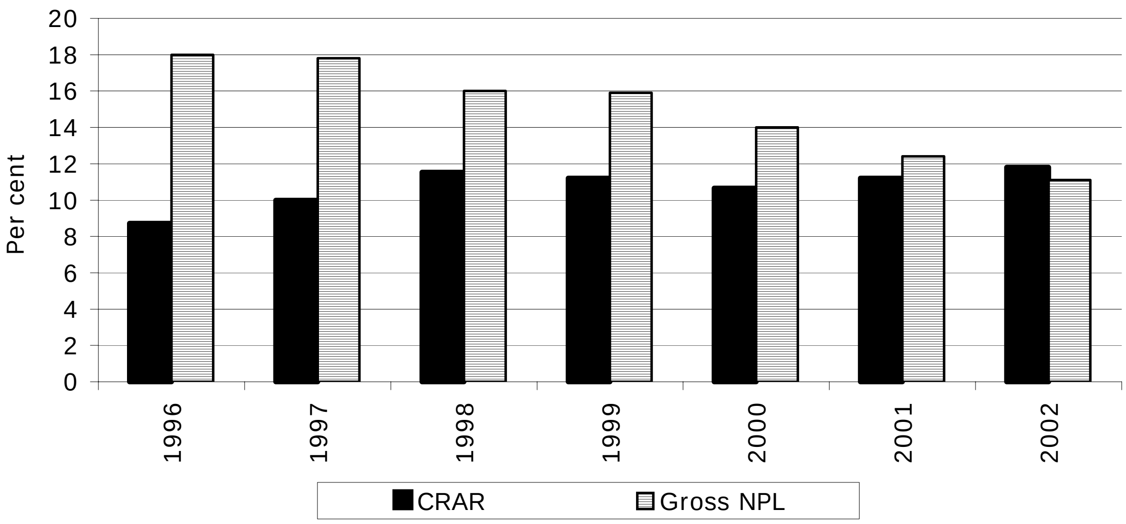
Table 1: Progress of Commercial Banking in India

(Amount in Rs. crore, unless mentioned otherwise)

Indicators	June 1969	June 1980	March 1991	March 1995	March 2000	March 2002
No. of Commercial Banks	73	154	272	284	298	297
No. of Bk. Offices	8,262	3,4594	60,570	64,234	67,868	68,195
Of which						
Rural and semi-urban bank offices	5,172	23,227	46,550	46,602	47,693	47,465
Population per Office ('000s)	64	16	14	15	15	15
Deposits of SCBs	4,646	40,436	2,01,199	3,86,859	8,51,593	11,31,188
Per capita Deposit (Rs.)	88	738	2,368	4,242	8,542	11,008
Credit of SCBs	3,599	25,078	1,21,865	2,11,560	4,54,069	6,09,053
Per capita Credit (Rs.)	68	457	1,434	2,320	4,555	5,927
Share of Priority Sector Advances in Total Non-Food Credit of SCBs (%)	15.0	37.0	39.2	33.7	35.4	31.0*
Deposits (% of National Income)	15.5	36.0	48.1	48.0	53.5	56.0*

*As at end-March 2001.
Source: RBI.

Chart 1: CRAR and Gross NPL Ratio of Public Sector Banks: 1996-2002



Recognising the importance of strengthening the institutions that were created, prudential regulation, norms for income recognition and asset classification (IRAC) were introduced in 1992 and strengthened progressively in line with international best practices. A strategy to attain CRAR of 8 per cent in a phased manner was put in place. The overall capital position of public sector banks has witnessed a marked improvement over the reform period, along with a reduction in their NPLs (Chart 1 and Table 2).

Table 2: Distribution of Scheduled Commercial Banks by CRAR

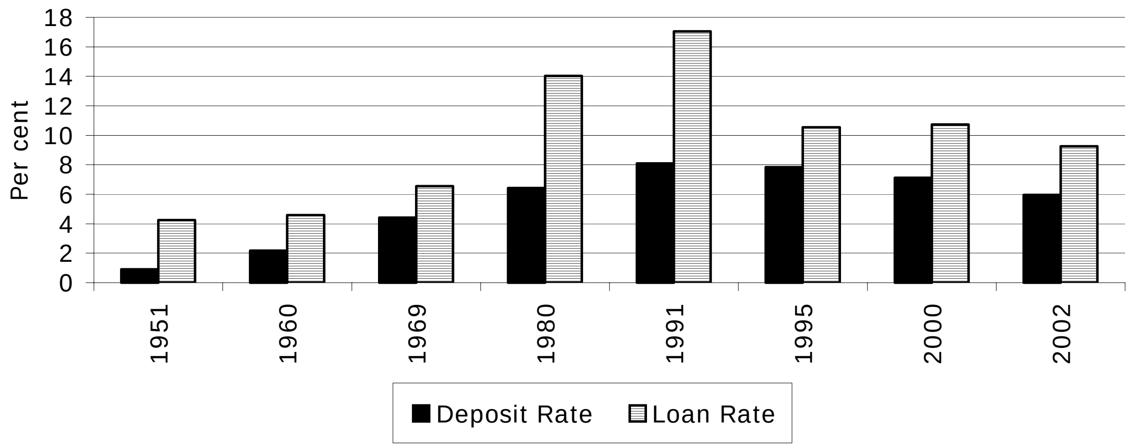
(No. of banks)

Bank Group	2000-01				2001-02			
	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent
State Bank Group	—	—	—	8	—	—	—	8
Nationalised Banks	1*	1	2	15	1	1	2	15
Old Private Sector Banks	2*	1	4	16	1*	—	2	19
New Private Sector Banks	—	—	1	7	—	1	1	6
Foreign Banks	—	—	4	38	1*	—	2	37
Total	3	2	11	84	3	2	7	85

* Negative. Source: RBI.

The profitability levels of commercial banks as a proportion of assets have hovered in the range of 0.7-0.8 per cent, except during certain exceptional years (Table 3). Profitability, in turn, is affected by a number of factors such as cost of funds, return on lending etc. The cost of mobilising deposits doubled over the period 1969 to 1990. Return on loans, on the other hand, witnessed a sharper increase over the same period; a gradual lowering thereafter was evidenced consequent upon the lowering of overall interest rates (Chart 2).

Chart 2: Deposit and Loan Rate of Commercial Banks: 1951-2002



The profile of income and expenses of commercial banks reveals that interest income has tended to dominate the bank's income profile. On the expenditure front, the interest expense component, witnessed a sharp rise followed by a gradual lowering over the last few years in tandem with the soft interest rate regime. On the other hand, operating expenses have shown an increasing trend, reflecting the high wage cost of bank employees, especially in public sector banks, which comprise the majority of the banking system (Table 3).

Table 3: Earnings and Expenses of Scheduled Commercial Banks
(Rs. Crore)

Year	Total Assets	Total Earnings	Of which Interest Earning	Total Expenses	Interest Expenses	Establish ment Expenses	Profit	Net Interest Earning
1951	1,171	45	36	31	10	15	14	26
		(3.8)	(3.1)	(2.6)	(0.9)	(1.3)	(1.2)	(2.2)
1969	6,840	427	361	379	190	141	48	171
		(6.2)	(5.3)	(5.5)	(2.8)	(2.1)	(0.7)	(2.5)
1980	58,224	4,232	3,754	4,179	2,717	1,004	53	1,037
		(7.3)	(6.4)	(7.2)	(4.7)	(1.7)	(0.1)	(1.8)
1991	3,27,512	30,404	27,521	29,661	18,968	7,596	743	8,553
		(9.3)	(8.4)	(9.1)	(5.8)	(2.3)	(0.2)	(2.6)
2000	11,05,464	1,14,930	99,184	1,07,685	69,041	27,583	7,245	30,143
		(10.4)	(9.0)	(9.7)	(6.2)	(2.5)	(0.7)	(2.7)
2002	15,35,513	1,51,026	1,26,970	1,39,452	87,516	33,696	11,574	39,454
		(9.8)	(8.3)	(9.1)	(5.7)	(2.2)	(0.8)	(2.6)

Figures in brackets are ratios to total assets. Source: RBI.

Cooperative Banks

Over the last two decades, there has been very fast growth of credit cooperatives (Table 4).

Table 4: Position of Cooperative Credit Institutions in India

	1979-80	1989-90	1999-2000	2001-02
Urban Cooperatives Banks				
Number	1,083	1,390	1,618	1,854
Deposits (Rs. Crore)	913	8,660	80,840	93,069
Loans outstanding (Rs. Crore)	686	6,802	45,995	62,060
Credit-Deposit Ratio (%)	75	79	65	67
State Cooperative Banks				
Number	27	28	29	30
Deposits (Rs. Crore)	1,226	5,883	29,557	35,929
Loans outstanding (Rs. Crore)	1,420	6,883	25,709	32,706
Credit-Deposit Ratio (%)	79	86	87	91

Source: RBI.

Unlike commercial banks, asset quality of cooperative banks in recent years does not indicate any discernable improvement with an increase in non performing loans. Since the cooperative banks, which have performed badly are relatively bigger banks, it has resulted in deterioration of the position of the cooperative banking segment as a whole. Movements in interest spread of cooperative banks indicate that in the recent past, there has been increase in competition faced by scheduled UCBs. With the phased deregulation of interest rates offered by these banks, there has been a marked fall in their spread. This, however, has not been witnessed in other segments of cooperatives. Similar decline in the operating expenses was also evidenced, driven primarily by a decline in their wage costs (Table 5).

Table 5: Select Indicators of Competition and Efficiency of Cooperative Banks

	1997-98	1998-99	1999-2000	2000-01	2001-02
					(per cent)
Interest Spread as a Proportion of Assets					
Scheduled Urban Cooperative Banks	3.8	3.2	3.2	2.8	2.2
State Cooperative Banks	2.0	1.5	1.9	2.1	n.a.
District Central Cooperative Banks	3.1	3.1	3.0	3.0	n.a.
Operating Expenses as a Proportion of Assets					
Scheduled Urban Cooperative Banks	2.4	2.1	2.1	2.0	2.0
State Cooperative Banks	0.9	0.8	0.8	0.7	n.a.
District Central Cooperative Banks	2.2	2.2	2.0	1.8	n.a.
Net Profit as a Proportion of Assets					
Scheduled Urban Cooperative Banks	0.5	0.9	0.8	-2.3	-0.6
State Cooperative Banks	-0.4	-0.2	0.3	0.4	n.a.
District Central Cooperative Banks	-0.4	0.1	0.1	0.1	n.a.
Profitable Cooperatives as a Proportion of the Total Cooperatives					
Scheduled Urban Cooperative Banks	n.a.	n.a.	98.0	94.1	84.6
State Cooperative Banks	n.a.	75.9	79.3	76.7	n.a.
District Central Cooperative Banks	n.a.	67.8	61.6	66.8	n.a.

n.a: Not available. Source: RBI.

Development Finance Institutions

Reflecting the changes in their operating environment, there has been a shift in the business profile of DFIs. A major change, which has taken place in the financing of investment activity by the DFIs, has been the growing importance of non-fund based business. The increased access to corporates in the international capital markets has affected DFIs foreign currency business. The share of underwriting and direct subscription in disbursements increased sharply over the 1990s, reflective of the diversification of their activities. The asset quality of DFIs was seriously eroded, especially in the second-half of the 1990s, owing to several factors, including drying up of concessional funds, downturn in the industrial sector, large exposure to traditional industries affected by restructuring and softening of interest rates. While some DFIs were able to pro-actively respond to the increased competition, several others were not. Competition on the asset side has also become manifold with banks entering the domain of long-term finance. All these factors significantly impinged on the profitability of DFIs. As DFIs have high NPLs, they would be required to provide for them, which is likely to put a further pressure on their profitability. Since some of the major DFIs have changed their character and converted to banks, comparable data is not available.

Non-Banking Finance Companies

There is considerable diversity in the composition, structure and functioning of NBFCs. Deposits of NBFCs witnessed a substantial increase since 1970s in tandem with a manifold increase in the number of reporting companies from 2,242 in 1969 to 11,010 in 1993. Subsequent upon the introduction of the new regulatory framework in 1997-98, the deposits of NBFCs have witnessed a marked decline (Table 6).[9]

Table 6: Deposits with Non-Banking Finance Companies

Period	As percent of Bank Deposits	As percent of GDP
1970-71 to 1974-75	0.71	0.12
1980-81 to 1984-85	0.46	0.14
1990-91 to 1992-93	1.18	0.45
1996-97	9.47	3.90
1997-98	3.70	1.57
1999-2000	2.16	1.10
2000-01	1.73	0.95

Note: Deposits of NBFCs, for the period 1970-71 to 1996-97 refer to regulated deposits.
Source: RBI.

Insurance Companies

There are two broad indicators of the performance of the insurance industry, viz., penetration ratio and insurance density. These ratios for India vis-à-vis select emerging market economies indicate that in terms of both the indicators, India's relative international position for life insurance industry is stronger compared to non-life insurance industry (Charts 3 and 4). As on March 31, 2002 there were 11 private sector participants in life insurance business and 6 in the non-life segment. Most of the private companies in the Indian insurance sector have been set up as joint venture with participation of foreign partners holding 26 per cent of the total paid-up equity capital.[10] The current profile of the Indian insurance industry reflects that, notwithstanding the entry of private sector players, in terms of both assets and liabilities, insurance companies from the public sector continue to dominate the Indian insurance industry. Notwithstanding this, given the fast pace of growth in life and non-life insurance industry, private players have been able to market their products (IRDA, 2002).

[9] There are certain problems of comparability of data on NBFC deposits. In 1993-94, there was a change in the ambit of deposits with NBFCs. Thereafter, in 1997-98, there had been an overhaul of the regulatory framework for NBFCs; consequently, the coverage of deposits changed as well.

[10] Under the current norms, the maximum limit on foreign participation in the insurance companies operating in India is 26 per cent.

Chart 3: Relative Position of India's Insurance Sector in Terms of Penetration Ratio in 2000

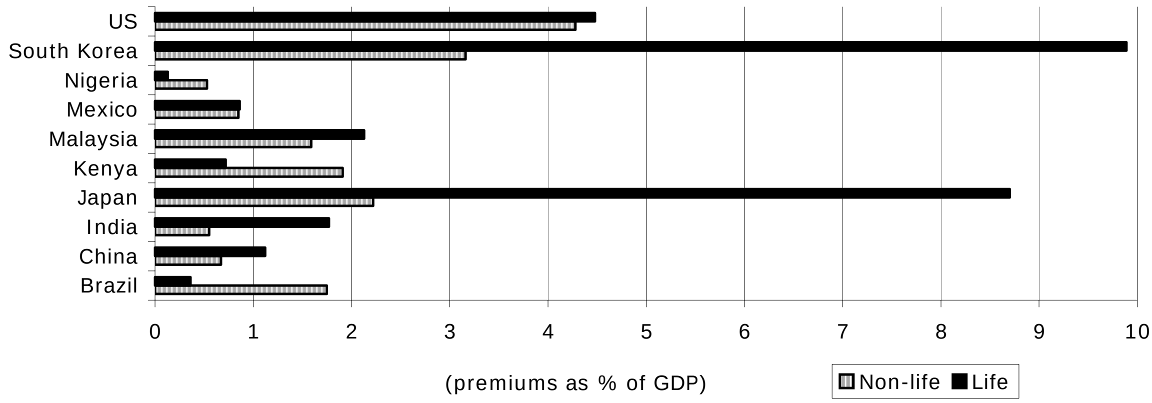
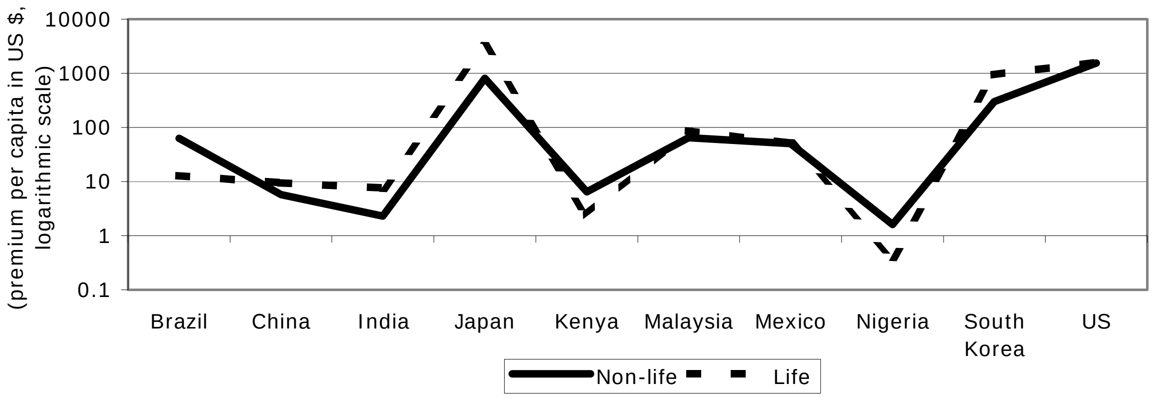


Chart 4: Relative Position of India's Insurance Sector in Terms of Density in 2000



Capital Markets

The 1990s have been remarkable for the Indian equity market. The market has grown exponentially in terms of resource mobilisation, number of stock exchanges, number of listed stocks, market capitalisation, trading volumes, turnover and investors' base (Table 7). Along with this growth, the profile of the investors, issuers and intermediaries have changed significantly. The market has witnessed a fundamental institutional change resulting in drastic reduction in transaction costs and significant improvement in efficiency, transparency and safety (NSE, 2002). In the 1990s, reform measures initiated by SEBI, market determined allocation of resources, rolling settlement, sophisticated risk management and derivatives trading have greatly improved the framework and efficiency of trading and settlement. Almost all equity settlements take place at the depository. As a result, Indian capital market has become qualitatively comparable to many developed and emerging markets.

Table 7: Select Stock Market Indicators in India

(per cent)

Year (end-March)	1961*	1971*	1980*	1991	2000	2002
Number of stock exchanges	7	8	9	22	23	23
Number of listed companies	1203	1599	2265	6229	9871	9644
Market capitalisation (Rs. crore)	1200	2700	6800	110279	1192630	749248

* end-December, BSE only.
Source: BSE and NSE.

Although the Indian capital market has grown in size and depth in the post reform period, the magnitude of activities is still negligible compared to those prevalent internationally. India accounted for 0.4 per cent in terms of market capitalisation and 0.59 per cent in terms of global turnover in the equity market in 2001 (Table 8). The liberalisation and consequent reform measures have drawn attention of foreign investors and led to rise in the FIIs investment in India. During the first half of the 1990s, India accounted for a larger volume of international equity issues than any other emerging market (IMF Survey, 1995). Presently, there are nearly 500 registered FIIs in India, which include asset management companies, pension funds, investment trusts, and incorporated institutional portfolio managers. FIIs are eligible to invest in listed as well as unlisted securities.

Table 8: Select International Stock Market Indicators

(per cent)

Country / Year	Market Capitalisation Ratio*		Turnover Ratio**		No. of Listed Companies	
	1990	2000	1990	2000	1990	2000
East Asia & Pacific	21.3	48.3	117.2	149.9	1,443	3,486
Europe and Central Asia	2.1	20.5	NA	83.1	110	8,220
South Asia	10.8	27.0	54.0	161.6	3231	7159
High Income Countries	51.7	120.6	59.5	129.9	17,078	25,548
India	12.2	32.4	65.9	191.4	2,435	5,795

NA: Not available. *Market capitalisation to GDP ratio. ** Volume of trade in the secondary market to market capitalisation.
Source: World Bank.

Debt Market

The Central Government's reliance on the market borrowings to meet its fiscal deficit has increased substantially during the 1990s while dependence of the State Governments has not witnessed much increase. The combined net market borrowings of the central and the State Governments during 2002-03 amounted to Rs. 1,33,182 crore as against Rs. 10,557 crore in 1990-91, i.e., a more than ten-fold increase. Though Indian debt market ranks third in Asia, after Japan and South Korea, in terms of issued amount, it is still underdeveloped if size of the Indian GDP with the outstanding size of the debt floatation is compared. Although, in terms of the primary issues, Indian debt market is quite large but the Government continues to be the large borrower unlike South Korea where the private sector is the main borrower (Patil, 2001). Presently, despite the increasing diversification of the debt market in the terms of number and variety of instruments available, Government securities account for a major portion of the debt market in India both in terms of outstanding stock, market capitalisation, trading volume and number of participants. The average maturity period presently turns out to be 7.5 years (Thorat, 2002).

The corporate debt market is still at a nascent stage. Since mid-1990s, private placement has emerged as the most important component of the primary issues market. The reason for rapid growth in the private placement market lies in the convenience, flexibility, low cost of issuance as well as tailor-made deals suited to both issuers and subscribers. The private placement market is also preferred by corporates wishing to issue securities with complex or non-standard features.

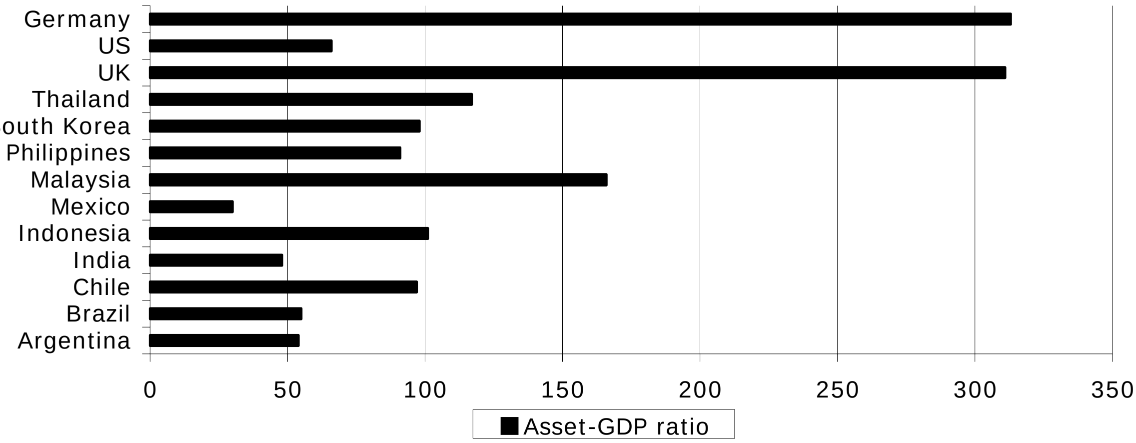
3. A Future Perspective for Indian Financial System

The basic emphasis of the Indian approach remains the creation of an enabling environment so as to foster a deep, competitive, efficient and vibrant financial institutions and markets, with emphasis on stability. A number of measures have been initiated to achieve convergence with international best practices. Keeping in view fast pace of technological innovations in the financial sector and product development at the international level, attempts have been to bring the financial system at par with such standards. However, while adapting to international standards and trends, special attention is being devoted so as to customise norms and standards keeping in view various country-specific, including institution-specific considerations.

As the economy begins to grow rapidly, the process of financial intermediation is likely to increase. However, in the Indian case, the ratio of bank assets to GDP is quite low (Chart 5) among developing countries (Barth et al., 2001). By comparable international standards, although the financial reach of the system is high, the extent of financial widening is much lower. This would mean that there is a lot of room for credit expansion to take place, which, in turn, envisages enhanced credit appraisal and risk management skills, which is an important challenge.

At present, around 76 per cent of the banking sector assets are accounted for by public sector banks, with the remaining being accounted for by private and foreign bank categories. The share of non-public sector banks has been increasing continuously over the last few years, with a sizeable rise in the market share (in terms of assets) being evident for new private banks. It is not difficult to imagine that the new private banks, with no legacy of economic structure and their ability to leverage technology to produce highly competitive types of banking, are comparatively better placed to outperform their public sector counterparts. This would imply a rise in the market share for this and (and likely) the foreign bank group and accordingly, a concomitant decline in the market share for public sector banks. The scope for this expansion obviously depends on the expansion of the total banking system. As it stands, the intermediation process has been taking place parallel with the development of the capital market. Therefore, the issue remains for public sector banks as to how to adjust the loss of relative market share in an environment where the absolute size of the pie is not expanding rapidly. Moreover, the ability of different public sector banks to cope up with this challenge is likely to be quite different, which is an important issue they would need to address.

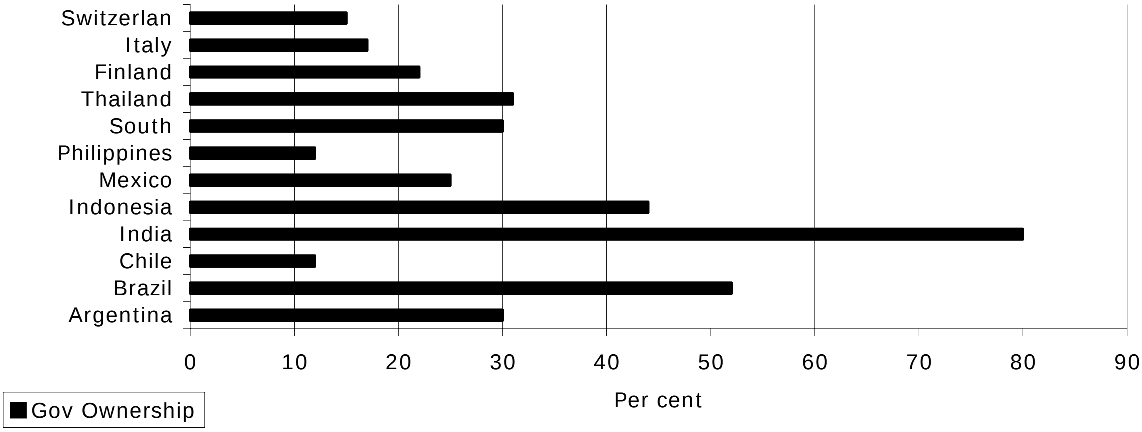
Chart 5: Bank Asset/GDP in Select Countries



An important issue relates to the manner in which public sector banks would cope when Government ownership is reduced to 33 per cent, which is likely to be fructified once the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions (Amendment) Bill, 2000 is passed by the Parliament. In fact, international evidence tends to suggest a significant scaling down of Government ownership in the banking system (Chart 6) in most countries (Barth et al, 2001). In such a scenario, banks will have to embrace modern management and corporate governance practices and acquire higher quality of human capital.

Another major concern for the banking system is the high cost and low productivity as reflected in relatively high spreads and cost of intermediation. Both spreads and operating costs, measured as percentage of total assets of banks have generally been higher vis-à-vis developed countries (Hawkins and Mihaljek, 2001). An important challenge for the banking sector, therefore, remains in transforming itself from high cost, low productivity to a more efficient, productive and competitive set up.

Chart 6: Government Ownership of Banks



The capital requirement of banks is likely to increase in the coming years with the pick up in credit demand and the implementation of Basel II norms sometime around 2006, which has accorded greater emphasis on risk-sensitivity in credit allocation. Banks would need to increase their profitability to generate sufficient capital funds internally, since maintaining the additional capital position in line with the prescribed norms could pose a major challenge.

Commercial banks continue to face the problem of overhang of NPLs, attributable, inter alia, to systemic factors such as weak debt recovery mechanism, non-realisability of collateral and poor credit appraisal techniques.[11] The recent enactment of the SARFAESI Act has increased the momentum for the recovery of NPLs. Banks need to intensify their efforts to recover their overdues and prevent generation of fresh NPLs.

In a regulated regime, risks were essentially compartmentalised with various categories of market and credit risks being managed separately. Increasingly, risk is viewed as multi-dimensional. Banks would need to establish the technical systems and management processes necessary not only to identify the risks associated with their activities, but also to effectively measure, monitor and control them.

A major challenge facing the banking and financial community emanates from the high growth in volumes of financial transactions and the impact of today's globalisation efforts the world over. Traditional geographical boundaries are getting blurred and greater challenges are confronting banks owing to the explosion of technology. It is in this context that there is an imperative need for not mere technology upgradation but also integration of technology with the general way of functioning of banks.

[11] Honohan (1997) advocates 'speed limits' to restrict the rate of growth of banks' loan portfolios.

Internationally, deposit insurance has been recognised as an important component of financial safety net for a country. Risk-based deposit insurance premium system has been identified as a measure that can reduce negative externalities of deposit insurance system. Introduction of such system is currently under consideration of the Government. It has also been announced that Deposit Insurance and Credit Guarantee Corporation (DICGC) of India would be restructured as a pure deposit insurance institution for banks.

In view of the gradual withdrawal of DFIs from longer-term financing, an issue remains about how to fill the void being created by such restructuring. There is a need to develop the private corporate debt market and introduce appropriate instruments to reduce the risk arising out of long-term financing by other players such as banks.

In recent times, attempts have been made to achieve regulatory and supervisory convergence between commercial and cooperative banks in certain key areas including prudential regulations. These steps are in the interest of the stability of the overall financial system as well as healthy development of the cooperative credit institutions. However, in view of the impaired capital position of many cooperatives and their large overhang of NPLs, achieving such convergence would prove to be difficult. It is, however, for the cooperative banks themselves to build on the synergy inherent in the cooperative structure and stand up for their unique qualities. In this context it is encouraging to note that during the recent years in the face of the restructuring process, cooperative banks are making efforts to reduce their operating cost.

The issue of corporate governance has assumed prominence in recent times, more so in view of the recent accounting irregularities in the US. The quality of corporate governance would become critical as competition intensifies, ownership is diversified and banks and cooperatives strive to retain their client base. This would necessitate significant improvements in areas such as housekeeping, audit practices, asset-liability management, systems management and internal controls in order to ensure the healthy growth of the financial sector.

Prior to enactment of legislative reforms for NBFCs, they mobilised a significant portion of their fund in the form of public deposits, often at high interest rates. This, coupled with relaxed regulatory and supervisory arrangements for NBFCs, created negative externalities including moral hazard. Introduction of reform measures for NBFCs has, however, substantially eliminated such problems and the share of public deposits in the total liability of NBFCs has declined substantially. Notwithstanding this, protection of the depositors' interests remains paramount. Towards this objective, the RBI continues to pursue with various State Governments the case for enacting legislation for protection of interest of depositors in financial establishments. Creating public awareness about activities and risk-profile of NBFCs along with improvement in corporate governance practices and financial disclosures needs to be focused upon in future.

The entry of private sector players in the insurance sector, , is yet to make a significant dent in the market share of the public sector entities. Recent evidence, however, suggests that the state-of-the-art services provided by private players have begun to make salutary effect on the insurance industry. Accordingly, promoting the role of competitive forces in the process of insurance liberalisation is essential, not only for customer choice, but also for raising resources for long-term infrastructure finance.

In the securities market, instituting enabling legal reform poses an important challenge for its orderly growth. A number of reforms in the financial system have been held back pending legal changes.

There is lack of transparency in the corporate debt market, which is operating predominantly on a private placement basis. A wholesome view has to be taken by the different regulators to develop a vibrant corporate debt market.

4. Lessons from the Indian Experience

The process of globalization has important implications for the financial sector and the institutions comprising it. In an increasingly globalized environment, the role of the policy maker in the domestic institutional building process can be envisaged in the form of providing a stable macroeconomic environment, increasing competition, establishing a strong regulatory and supervisory framework, evolving an enabling legal system and strengthening the technological infrastructure. A well-knitted institutional set up facilitates the growth and development process of an economy. Effective institutions can make the difference in the success of market reforms. If the financial system is well diversified and the markets are liquid and deep, effective mobilization and allocation of resources will be ensured. Many broad generalizations can be discerned from the Indian experience.

Development of the Indian financial system is premised on the conviction that financial development makes fundamental contributions to economic growth. At the time of Independence, the financial system was fairly liberal. By the 1960s, controls over the financial system were tightened and aligned in accordance to the centralized Plan priorities. The priority was to set up institutions to mobilize saving and allocate the saving to specified priority sectors. The RBI was vested with the responsibility of developing the institutional infrastructure in the country. Towards this end, controls on lending and deposit rates were introduced and specialised development banks, catering to varied segments of the economy were established. This institutional design did not achieve the desired results. The process culminated with the two-stage nationalization process of banks, first in 1969 and thereafter in 1980. Around the same time, insurance business was also brought under the domain of Government control in phases. The process of nationalization expanded the reach of financial services to remote parts of the country. However, the basic principle of mobilizing the saving and channeling the resources to certain sectors at a price not related to the market remained. Notwithstanding the numerous achievements of 'social banking', such as branch expansion and diversion of credit to rural sectors, the high degree of controls on the financial system also manifested itself in several inefficiencies, most notably financial repression.

In order to address these shortcomings, gradual liberalisation of the financial system was initiated in the late 1980s, which received greater momentum in the 1990s. The closed-economy framework gradually gave way to greater externally oriented and liberal financial (open) system. The 1990s witnessed the advent of economic reforms in the country encompassing trade, industry and the real sectors. The external sector was liberalized. The country adopted a flexible exchange rate regime early in the reform period and encouraged non-debt creating flows in the form of foreign direct investment and foreign institutional investment. Liberalisation of the external current account was also undertaken early in the reform cycle. The macroeconomic environment would then influence institutional building. As the economy opens up, the financial system can no longer afford to remain repressed. The financial system will also have to undertake reforms in the form of interest rate deregulation, prudential regulation, good supervisory standards, legal changes and technological upgradation. New institutions operating on market principles would emerge and old institutions would either have to change to cope with the emerging changes or close. Thus, macroeconomic reform and reform in the financial system will have to progress concomitantly. In the early 1990s, a wide-ranging set of reforms, encompassing both financial institutions and markets were undertaken, that paved the way for a more market-driven allocation and pricing of resources. The basic dimensions of the process of globalization have tended to exhibit itself, both domestically, in terms of greater integration of domestic financial markets with global ones and internationally, in terms of the adoption of a process of gradual convergence with international best practices.

The pre-reform experience clearly showed that Governments that suppress their financial systems in order to finance spending end with underdeveloped, inefficient and repressed financial systems. Prior to reforms, Indian institutions were typically set up to mobilize savings and allocate resources at administered rates. Initially, the authorities concentrated on regulating both the quantity and cost of credit. This undermined the efficiency of the financial system and ultimately led to financial repression. The post- reform institutional structure recognized the need for institutions to be market based. The major elements for an adequate development of the financial sector in India constituted a stable macro economic environment, competition, effective prudential regulation, sound supervision, enabling legal framework and modern technological infrastructure.

The driving forces for important innovations in the financial system can come from within or from external forces. In fact, in the Indian case, although the trigger for the economic reform process was the balance of payments crisis resulting from the Gulf war of 1990, the reforms in the financial sector were the result of a well-crafted internal strategy. The early part of macroeconomic reform saw changes in the exchange rate system, the opening up of the economy to foreign investors and adoption of current account convertibility. This necessitated the financial system to undertake reform to keep pace with the changes in the other sectors of the economy. The Indian experience suggests that it was slightly ahead of the learning curve insofar as the implementation of reforms in the financial sector was concerned. The process was initiated through High Level Committees that provided road maps for implementation of reforms so as to progressively reach international best standards while taking the unique country circumstances into consideration. For instance, in the first phase, greater emphasis was placed on policy deregulation (interest rate deregulation, easing of statutory preemptions, etc.), improving prudential norms (imposing capital adequacy ratio, asset classification, exposure norms, etc.), infusing competition (permitting entry of new private sector banks), diversifying ownership, developing money, debt and foreign exchange markets (for risk free yield curve and monetary policy transmission as well as global integration), establishing regulatory and supervisory standards (Board for Financial Supervision) and insisting on greater transparency and disclosures. It was only in the second stage that many legal amendments (Securities Contract Regulation Act, Government Securities Bill, SARFAESI, etc.) and diversification of ownership of public sector banks, etc., were undertaken.

The Indian experience also shows that there is no optimal sequencing in respect of either policies or institutions, both within and across countries. For instance, some countries that reformed after a crisis did so with a big bang, while others such as India followed a gradualist approach. In fact, reforms in the financial and external sectors were not treated as a discrete event but as a continuous and complementary process. For instance, in the Indian context, reforms in the financial sector were undertaken in the early part of the economic reform cycle and embraced the banking sector in view of its dominance in the financial sector and the money and Government Securities markets initially in view of their inexorable linkages with the rest of the financial system. Reform of DFIs, cooperatives sector and non-banking finance companies followed. Further, in India, prudential reforms were implemented first and the structural and legal changes followed whereas in some countries, legal changes have preceded prudential and structural reforms.

There is also no threshold level of institution building that should precede capital market opening. It can happen simultaneously or in any sequence. In the equity market, many of the good institutional practices like, clearing house, settlement house and technological infrastructure for trading came at a much later stage of development of capital markets. In the Government Securities market, in the early 1990s, with the switchover to market-based pricing of debt, expansion of the market took place rapidly without the adequate infrastructure for transparent trading and prompt settlement. This asymmetry resulted in certain irregularities, which provided the impetus for the authorities to undertake rapid reforms in the market. In the Government Securities market, good settlement practices, and institutions to develop primary and secondary markets, therefore, came up in the early phase of reform. In fact, the RBI set up institutions to develop the money and gilts markets and later divested the institutions that it owned, the strategy being to avoid the moral hazard of RBI acting as lender of last resort. The subsequent phase of institution building in the markets fostered transparent and efficient market practices and helped in risk containment (e.g. NDS, CCIL, PDs, screen based system for trade in Gilts).

The role of technology is very critical for institution building in the sense that it increases efficiency by globalizing the market. Technology reduces the time and cost required to implement initiatives for strengthening the financial sector. Examples are the setting up of ATMs that increased the reach of the people to banks. In the financial markets, technology has been harnessed to increase transparency (Negotiated Dealing System), reduce risk in settlement (CCIL), enable price discovery through screen-based auctions, hedge market risks through screen based trading system for derivatives. The equity market also employed a complete transformation of the market design as well, as stock exchanges switched to order matching by computers. In the equity and debt markets, depositories eliminated the operational vulnerabilities associated with physical certificates. These changes added up to a complete transformation of the market design. This was accompanied by a corresponding transformation of the human capital.

It is very critical that reforms maintain a balance between efficiency and stability, especially in an emerging market economy like India. Greater competition modifies the effectiveness of existing institutions. It improves efficiency, increases incentives for innovation and promotes wider access. There is therefore a need to modify existing institutions to complement the new and better institutions. It is important that the transition is managed without disruption to the market and the economy. The Indian stand of cautious liberalisation vindicates this position, since the balance between markets and the State is delicate. The Indian experience shows that consultations with market practices, and announcing a time table for reforms to give time for market players to adjust go a long way in ensuring stability.

The intervention of governments and the central bank in institution building depends on specific country circumstance. In India, the government and central bank were directly involved in institution building from the time of independence. However, the main difference was that the pre-reform period was characterized by micro management of institutions by government and central bank whereas in the post-1991 period, institutions had greater autonomy and flexibility in operations and monitoring while regulations were more market based and incentive driven. Effective institutions are those that are incentive compatible. An important issue in the design of institutions is in ensuring that the incentives that are created actually lead to the desired behaviour. Greater competition modifies the effectiveness of existing institutions. It improves efficiency, increases incentives for innovation and promotes wider access. There is therefore a need to modify existing institutions to complement the new and better institutions.

A well architectured financial system mitigates and diversifies risks but a badly designed system can lead to magnification of risks. The challenge to policy makers is to build a financial system that assists in risk mitigation. It is well recognized by now, especially after the Asian crisis, that a multi-institutional financial structure mitigates the risk to the financial system. The Indian experience vindicates this stance. Banks, DFIs, and capital markets have co-existed from the post-independence era; only that the character of these institutions has changed depending on the evolutionary stage of the economy. In this context, development of a domestic debt market becomes important. The motivation for development of a debt market can arise from different reasons viz., to develop corporate debt market, overall financial market development, existence of a dominant G-sec market (like in India), part of pension reform etc. Globalization can be a driving force in this regard. In a simplistic sense, as market opens up and forex reserves accumulate, the need for sterilization itself would motivate development of financial markets. As foreign investors and FDI comes in, the need for transparency, institutional mechanism, good settlement and payment systems etc. will predominate. The Government Securities market is the most dominant component of the debt market in India. Among others, the key elements of development of Government Securities market have been institutional development, infrastructure development, technological infrastructure, and legal changes.

A salient feature of the move towards globalisation has been the intention of the regulators and the responsiveness of the authorities to progress towards international best practices. An institutional process in the form of several Advisory Groups set upon the task of benchmarking Indian practices with international standards in areas relating to monetary policy, banking supervision, data dissemination, corporate governance and the like. Although the standards have evolved in the context of international stability, they have enormous efficiency-enhancing value by themselves. Standards by themselves may be presumed to be, prima facie, desirable, and it is, therefore, in the national interest to develop institutional mechanisms for consideration of international standards. Thus, the implementation of standards needs to be given a domestic focus with the objectives of market development and enhancing domestic market efficiency (Reddy 2002).

5. Conclusion

Reform efforts in terms of strengthening of prudential norms, enhancing transparency standards and positioning best management practices are an ongoing process. Efforts are also on for furtherance of efficiency and productivity within an overall framework of financial stability. Organised banking has made its presence felt in remote parts of the country. Insurance, hitherto a public sector monopoly, has since been transformed into a competitive market in both life and non-life segments. Strengthening corporate governance in cooperative banks has been making headway. Disclosures standards have been strengthened for non-banking companies. DFIs are also restructuring themselves in an era of global competition. A great deal of reforms has been undertaken in most areas of financial sector, reflected in the growing sophistication of the financial system. The resilience of the system is reflected in terms of absence of any major crisis in the financial system, a sustainable and broad-based growth environment, lower levels of inflation and strong external sector position. No doubt, the institutional framework in the financial sector had a major role to play in this process and the globalisation process in the financial sector has been beneficial for the economy. At the same time, the stance of the authorities has been pro-active, reacting to the macroeconomic policy stance, global challenges and constantly endeavouring towards international best practices. One can do no better than observe as to what Jalan (2001) reminds us, in a similar vein, "…India of 2025 will be a very different place, and a much more dominant force in the world economy, than was the case twenty five years ago or at the beginning of the new millennium".

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Select Chronology on Developments in the Indian Financial Sector

Year	Event
1770	Bank of Hindustan, the first bank in India on modern lines, established.
1875	Bombay Stock Exchange started formal trading.
1918	Oriental Life Insurance Company established.
1850	First general insurance company established.
1921	Three Presidency banks, Bank of Bengal, Bank of Madras and Bank of Bombay, merged into Imperial Bank.
1926	Establishment of Hilton-Young Commission to suggest a central bank for the country.
1935	Establishment of Reserve Bank of India as the central bank.
1947	Capital Issues Control Act imposed restrictions on issue of capital.
1948	Establishment of Industrial Finance Corporation, the first DFI
1955	Imperial Bank taken over by State Bank of India; Establishment of Industrial Credit and Investment Corporation of India.
1956	Life Insurance Company of India came into effect; Securities Contracts (Regulation) Act impacted directly and indirectly on securities trading, running of stock exchanges and prevention of undesirable transaction.
1962	Deposit Insurance Corporation established.
1963	Insertion of a new Chapter in RBI Act, 1934 to effectively supervise, control and regulate deposit-taking activities of NBFCs.
1964	Establishment of Industrial Development Bank of India.
1966	Deposit insurance extended to co-operative banks.
1969	Nationalisation of 14 largest banks commercial banks.
1973	Nationalisation of general insurance companies; Foreign Exchange Regulation Act (FERA) was promulgated which provided an opportunity to develop Indian equity market.
1975	Establishment of Regional Rural Banks.
1980	Second round of nationalization of 6 commercial banks.
1982	Establishment of National Bank for Agriculture and Rural Development; First Credit Rating Agency established in India.
1990	Establishment of Small Industries Development Bank of India.
1991	Report of the Committee on the Financial System, which provided the blueprint for first generation financial sector reforms.
1992	Introduction of prudential norms for income recognition and asset classification; SEBI obtained statutory powers to promote orderly development of capital market; Incorporation of National Stock Exchange (NSE) as the first screen-based and transparent trading platform for investors; Introduction of auction system for Government securities.
1993	Introduction of depositories.
1994	Board for Financial Supervision, an autonomous body under the aegis of RBI, established; New guidelines for entry of new private sector banks announced; Wholesale debt market operations initiated by NSE.
1996	Establishment of Institute for Development and Research in Banking Technology; Depositories Act was passed which allowed for holding of securities in dematerialised form.
1997	Promulgation of RBI (Amendment) Act for intensified regulation of deposit-taking NBFCs; Termination of automatic monetisation of Government deficit; Bank Rate activated as a signaling rate; Statutory Liquidity Ratio (SLR) reduced to 38.5% (legal minimum)
1999	Insurance Regulation and Development Act passed allowing new players/joint ventures to undertake insurance business; Detailed guidelines on risk management in banks announced; Standing Committee on International Financial Standards and Codes set up to evolve sound standards based on recognised best practices.
2000	Guidelines issued regarding interest rate swaps and forward rate agreement to enable financial entities to hedge interest rate risk; New guidelines for categorisation and valuation of banks' investment portfolio announced; Liquidity adjustment facility introduced; Foreign Exchange Management Act, replacing the earlier FERA, introduced.
2001	Establishment of Credit Information Bureau of India Ltd.
2002	Revised guidelines announced for entry of nee private banks; Enactment of SARFAESI Act for enforcement of security interest for secured creditors; Establishment of first universal bank in the country; Clearing Corporation of India Limited became operational; Consolidated guidelines issued on FDI in banking.
2003	Central Listing Authority was constituted.