



INDIA'S EXPERIENCE IN THE CONDUCT OF MONETARY POLICY IN THE ERA OF GLOBALISING FINANCIAL SYSTEM

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Monetary Policy: Outcome (1)

Period (Averages)	GDP Growth Rate (%)	WPI Inflation Rate (%)
1951-52 to 1959-60	3.6	1.2
1960-61 to 1969-70	4.0	6.4
1970-71 to 1979-80	2.9	9.0
1980-81 to 1990-91	5.6	8.2
1991-92 (Crisis Year)	1.4	13.7
1992-93 to 1999-00	6.3	7.2
2000-01 to 2006-07	6.9	5.1
2003-04 to 2006-07	8.6	4.9



Monetary Policy: Outcome (2)

Cross-country Survey

Country	Real GDP Growth, %			Consumer Price Inflation, %		
	1990-1999	2000-2007	2003-2007	1990-1999	2000-2007	2003-2007
Developing Economies						
Argentina	4.3	3.4	8.6	253.7	9.0	9.6
Brazil	1.7	3.3	3.6	854.8	7.3	7.2
China	10.0	9.9	10.6	7.8	1.7	2.6
India	5.7	7.0	8.5	9.6	4.5	4.8
Indonesia	4.3	5.1	5.4	14.4	8.7	8.6
Korea	6.3	5.1	4.4	5.7	3.0	2.9
Malaysia	7.2	5.4	5.9	3.7	2.0	2.2
Mexico	3.4	2.9	3.2	20.4	5.2	4.1
Philippines	2.8	5.0	5.6	9.7	5.0	5.3
Russia	-3.8	6.8	6.9	222.2	14.2	11.0
South Africa	1.4	4.2	4.5	9.9	5.3	4.4
Thailand	5.3	4.9	5.4	5.0	2.5	3.1
Turkey	3.9	5.1	6.6	76.7	26.8	12.0
Developed Economies						
Australia	3.3	3.3	3.3	2.5	3.2	2.7
Canada	2.4	2.9	2.7	2.2	2.3	2.2
France	1.9	2.0	1.8	1.9	1.9	2.0
Germany	2.3	1.4	1.4	2.4	1.7	1.7
Italy	1.4	1.3	1.0	4.1	2.4	2.3
Japan	1.5	1.7	2.0	1.2	-0.3	-0.1
United Kingdom	2.1	2.8	2.8	3.3	1.6	1.9



Banking Sector: Outcome (1)

Distribution of Commercial Banks According to CRAR

(Number of banks)

End March	Below 4 per cent	Between 4-9 per cent*	Between 9-10 per cent@	Above 10 per cent	Total
1996	8	9	33	42	92
2001	3	2	11	84	100
2007	-	-	2	79	81

* : Relates to 4-8 per cent before 1999-2000.

@: Relates to 8-10 per cent before 1999-2000.

Source: Reserve Bank of India.



Banking Sector: Outcome (2)

Non-Performing Loans (NPL)

(Per cent)

	Gross NPL/ Gross Advances	Gross NPL/ Assets	Net NPL/ Net Advances	Net NPL/ Assets
1996-97	15.7	7.0	8.1	3.3
2000-01	11.4	4.9	6.2	2.5
2001-02	10.4	4.6	5.5	2.3
2002-03	8.8	4.0	4.4	1.9
2003-04	7.2	3.3	2.8	1.2
2004-05	5.2	2.5	2.0	0.9
2005-06	3.1	1.8	1.2	0.7
2006-07	2.4	1.5	1.0	0.6

Source Reserve Bank of India.



Banking Sector: Outcome (3)

Earnings and Expenses

(Rs. billion)

Year	Total Assets	Total Earnings	Interest Earnings	Total Expenses	Interest Expenses	Establishment Expenses	Net Interest Earning
1991	3,275	304	275	297	190	76	86
		(9.3)	(8.4)	(9.1)	(5.8)	(2.3)	(2.6)
2000	11,055	1,149	992	1,077	690	276	301
		(10.4)	(9.0)	(9.7)	(6.2)	(2.5)	(2.7)
2006	25,865	2,208	1,854	1,962	1,072	592	783
		(7.9)	(6.7)	(7.0)	(3.9)	(2.1)	(2.8)
2007	31,854	2,762	2,373	2,450	1,440	663	933
		(8.0)	(6.9)	(7.1)	(4.2)	(1.9)	(2.7)

Note: Figures in brackets are ratios to total assets.

Source: Reserve Bank of India.



Banking Sector: Outcome (4)

Bank Group-wise Shares: Select Indicators

(Per cent)

	1995-96	2000-01	2004-05	2005-06	2006-07
	2	3	4	5	6
Public Sector Banks					
Income	82.5	78.4	75.6	72.4	68.4
Expenditure	84.2	78.9	75.8	73.0	68.9
Total Assets	84.4	79.5	74.4	72.3	70.5
Net Profit	-39.1	67.4	73.3	67.3	64.6
Gross Profit	74.3	69.9	75.9	69.8	64.1
New Private Sector Banks					
Income	1.5	5.7	11.8	14.4	17.8
Expenditure	1.3	5.5	11.4	14.1	17.9
Total Assets	1.5	6.1	12.9	15.1	16.9
Net Profit	17.8	10.0	15.0	16.7	17.1
Gross Profit	2.5	6.9	10.7	13.8	16.7
Foreign Banks					
Income	9.4	9.1	7.0	8.0	9.0
Expenditure	8.3	8.8	6.6	7.4	8.3
Total Assets	7.9	7.9	6.8	7.2	8.0
Net Profit	79.8	14.8	9.7	12.5	14.7
Gross Profit	15.6	15.7	9.0	12.2	14.6

Source: Reserve Bank of India.



Banking Sector: Outcome (5)

Progress of Private Sector Banks

	Private Sector Banks @	Public Sector Banks	All Banks	
No. of Branches	16-46	1.7	2.4	
No. of Employees	30-98	-0.9	2.0	
Net Profits	27-36	13.1	16.4	
Deposits	32-51	16.6	17.7	
Advances	39-71	27.2	27.1	
@: Data pertain to growth recorded by 4 major private sector banks (ICICI Bank, HDFC, UTI/Axis, Centurion Bank of Punjab).				



FINANCIAL MARKETS (1)

G-Sec Market

◆ Institutional Measures

- Market interest on G-securities
- Introduction of PDs as market makers
- Banks to undertake PD business
- RBI withdrawal from primary market
- Permission of short-sales in G-sec market
- Guidelines on when issued market

◆ Legal Reforms

- Amendment of Securities Contracts Regulation Act
- Fiscal Responsibility & Budget Management Legislation



FINANCIAL MARKETS (2)

G-Sec Market

◆ New instruments in G-sec market

- T Bill of varying maturities, Zero Coupon Bond, FRB, Capital Indexed Bond,
- OTC interest rate derivatives and exchange traded interest rate futures
- Introduction of Market Stabilisation Scheme for sterilisation

◆ Enabling Measures

- Improved trading, clearing, payment and settlement arrangements
- Clearing Corporation of India Ltd. (CCIL), NDS
- Introduction of Anonymous Screen Based Trading
- Trading of G-sec in Stock Exchanges



FINANCIAL MARKETS (3)

Forex Market

◆ Exchange Rate Regime

- From fixed to crawling peg to float
- Full current account convertibility
- *De facto* capital account convertibility for non-residents, calibrated liberalisation for residents

◆ Institutional Framework

- From control to management
 - Foreign Exchange Regulation Act, 1973 to Foreign Exchange Management Act, 2000
- Greater autonomy to banks to release forex and undertake forex operations
- Netting out of \$ transactions in CCIL



FINANCIAL MARKETS (4)

Forex Market

- ◆ **New instruments in the forex market**
 - Interest rate and currency swaps, forex-rupee options, forward rate agreement

- ◆ **Liberalisation Measures**
 - Unlimited hedging of genuine forex risk
 - Foreign participation in Indian forex market allowed
 - FIIs and NRIs trading allowed in exchange-traded derivative contracts
 - Residents can open forex account



FINANCIAL MARKETS OUTCOME

Average Daily Turnover

(Rs. billion)

Year	Money Market*	Government Securities Market	Foreign Exchange Market	Equity Market (Cash Segment) **	Equity Market (Derivative Segment--NSE)
1991-92@	66	4	n.a	n.a.	n.a.
2000-01	427	28	212	93	0.1
2001-02	655	62	232	33	4
2002-03	767	71	242	37	18
2003-04	287	84	307	63	84
2004-05	385	48	400	66	101
2005-06	600	36	564	95	192
2006-07	888	49	840	118	298

*: Includes the call money, the notice money, the term money, the CBLO and the repo markets.

@: Data for G-Sec and equity market relate to 1995-96. **: Include both BSE and NSE. n.a.: not available



FINANCIAL MARKETS OUTCOME

Outstanding Derivatives (end-June 2007)

S. No	Item	Total	(Rupees billion)	
			Of which: for hedging	
1	Forex Contracts	377	39	
	(i) Forward contracts	310	37	
	(ii) Currency Options	67	2	
	(iii) Others	0	0	
2	Interest Rate related Contracts	569	7	
	(i) Forward Rate Agreements	1	0	
	(ii) Interest Rate Options	3	0	
	(iii) Interest Rate Swaps	545	5	
	(iv) Currency Swaps	19	2	
	(v) Others	1	0	
3	All Other Derivative Products	0	0	
4	Total	947	46	



Cross Country - Select Banking Indicators – 2006

				(Per cent)
	CRAR	NPAs/Total loans	Provisions /NPLs	Return on Assets
Developing Economies				
Argentina	-	3.4	130.2	2.0
Brazil	18.9	4.1	152.8	2.5
China	-	7.5	-	0.9
India	12.4	3.5	58.9	0.9
Indonesia	21.3	13.1	99.7	2.6
Korea	12.8	0.8	175.2	1.1
Malaysia	13.5	8.5	50.7	1.3
Mexico	16.3	2.1	207.4	3.1
Philippines	-	18.6	37.4	1.3
Russia	14.9	2.6	159.3	3.2
South Africa	12.3	1.2	-	1.4
Thailand	13.8	7.5	79.4	2.3
Turkey	21.1	3.2	90.8	2.4
Developed Economies				
Australia	10.4	0.2	204.5	-
Canada	12.5	0.4	55.3	1.0
France	-	3.2	58.7	-
Germany	-	4.0	-	0.5
Italy	10.7	5.3	46.0	0.8
Japan	13.1	2.5	30.3	0.4
United Kingdom	12.9	0.9	-	0.5
United States	13.0	0.8	137.2	1.3



THANK YOU