



# Financial Foresights

*Views, Reflection and Erudition*

VOL. NO. 3 | ISSUE NO. 2 | Q2 FY 12-13



## Role of India in Asia & BRICS

**FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY**

*Industry's Voice for Policy Change*

## “Application for National Membership of MCX-SX”

### ABOUT MCX-SX:

MCX STOCK EXCHANGE (MCX-SX), India's New Stock Exchange, commenced operations in the Currency Futures Segment on October 2008 and currently provides trading facility in Currency Futures and Options. Trades on MCX-SX are cleared by MCX-SX Clearing Corporation Limited (MCX-SX CCL). The Exchange currently has 751 members participating from 734 towns and cities across India.

The Exchange has received permission from SEBI to trade in Equity, Futures and Options on Equity, Interest Rate Derivatives and Debt Segment and would commence operations after enrolment of members and completion of other compliances. The membership offer is for these segments. MCX-SX believes new opportunities will unfold for members and securities industry professionals as the capital market develops further. The exchange proposes to undertake capacity building for members to enable them to manage new opportunities.

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professionals such as MBA/CA/CFA/ICWA/LLB/CS/BE/MBBS who are taking membership of a Stock Exchange for the first time.

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- Banks and Financial Institutions, including their subsidiaries

### MEMBERSHIP DETAILS:

Details of Net-worth, Fees and Deposits, and Admission Procedure information is provided in the Membership Dossier which can be collected from the Exchange or downloaded from: <http://www.mcx-sx.com/membership>.

Interested persons may obtain Application Form and other details either from Exchange website or Corporate office/Regional offices. The duly filled in Application Form along with a demand draft for admission fees should reach the Exchange. Payments are to be made through demand draft, drawn in favour of ‘MCX Stock Exchange Limited’ payable at ‘Mumbai’.

Head - Membership

**MCX STOCK EXCHANGE LIMITED**

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A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs; FICCI enjoys an indirect membership of over 2,50,000 companies from various regional chambers of commerce. FICCI provides a platform for sector specific consensus building and networking and as the first port of call for Indian industry and the international business community.

# Acknowledgments

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# Preface



Asia today has the largest GDP of all continents in Purchasing Power Parity terms and second largest in terms of nominal GDP. In the next two decades, three of the four major global economic powers will be located in Asia. Indian economy will become a \$5.6 trillion economy by fiscal 2020, from the \$1.73 trillion in fiscal 2010-11 according to research firm Dun & Bradstreet. As predicted by Goldman Sachs, by 2035 India would be the third largest economy of the world.

The focus of world production, trade and investment is relocating to Asia while Asian economies are coming together with thriving developments in the trade and investment sectors. It is evident from the above facts that within the foreseeable future, Asia, the largest continent in the world will emerge as the global centre for trade and commerce. Understanding the importance of cooperation amongst Asian Economies, I am pleased to inform you that FICCI and the BOAO Forum for Asia (BFA) are jointly organizing the inaugural **Asian Financial Cooperation Conference (AFCC) under the theme of "Open Asia, Open Finance" on November 26th & 27th , 2012 at Hotel Trident, Nariman Point, Mumbai, India.**

A wide range of issues will be deliberated upon, including global economic outlook and Asian transformation, financing Asian infrastructure through capital market innovation, currency swaps and exchange rate coordination, amongst many other central themes. The conference will act as a high profile knowledge-sharing and networking platform. The conference will aim at addressing the challenges faced in mobilising capital overcoming regulatory bottlenecks in cross-border takeovers and in financing multilateral trade. The AFCC will aim to provide a platform to heighten cooperation between Asian countries.

This issue of the Financial Foresights takes a closer look at some of the key issues centric to the Indian economy and what measures we can take for deepening and widening financial integration across Asia so as to better serve the burgeoning trade relationships.

We look forward to your views and suggestions to help us improvise the content of the digest and make it more relevant and informative.

A handwritten signature in black ink, appearing to read 'Rajiv Kumar'.

**Rajiv Kumar**  
**Secretary General**  
FICCI



# Industry Insights

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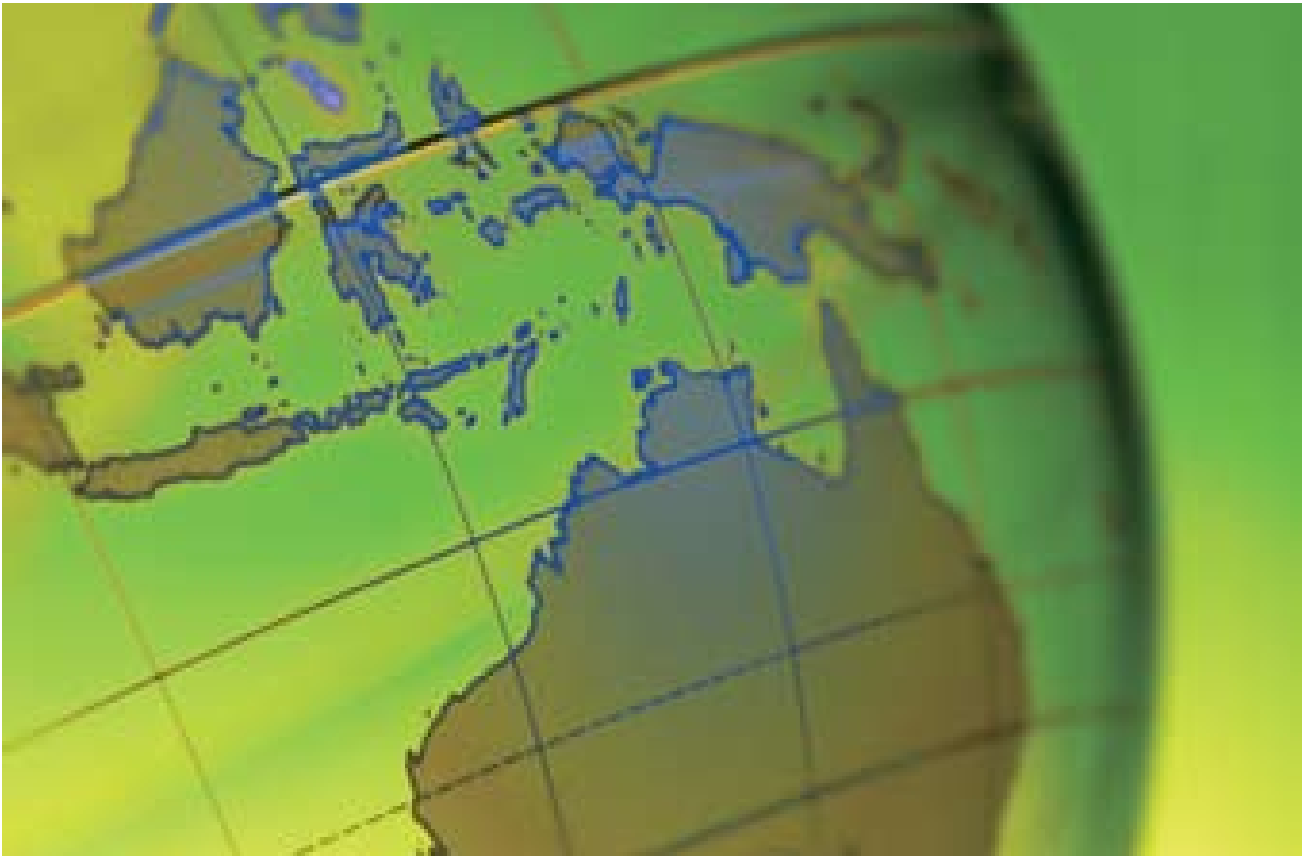


## A to Z of Financial Services

Religare Enterprises is a leading financial services group anchored in India with a global presence that cuts across languages, cultures and time-zones. In India, the group serves more than a million clients through its presence in over 500 cities.

Offering a diversified range of products and services ranging from Insurance and Asset Management to Investment Banking and Wealth Management, Religare has been acknowledged as one of the leading Indian organisations in financial services. And all along our steep growth curve, the constants have been our enduring values and unwavering commitment towards our stakeholders, the environment and society that continue to grow with us everyday.





## India a growing force in Asia's financial growth

*Mr. Shachindra Nath, Group CEO, Religare Enterprises Limited*

The 21st century has been spoken of as the Asian century since beginning of the decade. Since the financial crisis, there is now a resounding view that the current century will truly belong to Asia. Most of the future global growth will come from the 'emerging markets' with reputed institutions such as Goldman Sachs and the IMF indicating that nearly 60% of world GDP will come from the emerging markets by 2030, as compared to just over 30% right now. China, India, Indonesia and Thailand as the emerging economies of Asia will contribute significantly to this growth. Additionally, the

emergence of the more inclusive G-20 as the premier grouping of economies as opposed to the earlier 'rich world' grouping of G-7 nations is the clearest indicator of the rising power of the emerging markets.

The growth in Asia is a result of and will continue to be driven by the rise of household incomes causing an increase in consumer demand, much needed investment in infrastructure to manage the

*India's role will be that of an enabler to Asia's financial growth.*



growth in urbanization of smaller cities, the inter-linkage for trade between the Asian economies with the developed economies and gradual reforms in the financial sector.

### Financial growth of Asia

Over the next 40 years Asia's contribution to global GDP is likely to almost double from close to 27% in 2010 to 51% in 2050. Contribution to global financial assets is likely to double from 23% in 2009 to 45% in 2050 as the financial services deepen in Asia and higher growth coming from the under-penetrated markets of China and India. As Asian economies experience this rise, savings pools from the developed markets will also find the growth and the prospects attractive providing additional avenues of capital for further investments in the emerging economies. India will be one of the forerunners in attracting such capital flows with the expectation that by 2030 India's market capitalization will be 5% of global market capitalization making it essential that a platform for identifying the right opportunities is created for such capital flows.

### India's Role and Potential

India's role will be that of an enabler to Asia's financial growth. India's potential is well documented driven by favorable demographics, increased infrastructure spending for urbanization of cities and opportunity to deepen financial services for directing household savings.



### Favorable demographics

Out of the total population of 1.2 billion, over 50% is under the age of 25. This population will be driving the growth in consumption which forms a large component of the GDP for any nation with private household consumption as a key driver. Increase in working population over the next twenty years and 'movement' across income brackets in India will continue to drive this component significantly as a result India's consumer market is set to explode over the next two decades with total private consumption going from \$370 billion today to over \$1,500 billion by 2025.

While India will experience this development and is set to reap the benefits, China's population will undergo transition as the workforce will shrink from now

till 2050 in effect increasing old age dependency due to its policy on restricting children for each household. This transition has wide implications on how India's role will increase in driving the growth of Asia during rest of the century.

### Infrastructure spend

A large part of China's sustainable growth over the last three decades has been the infrastructure spent on developing urban cities from the small agrarian focused villages. A similar effort is needed in India for maintaining a steady GDP growth over a longer period of time. The government is taking steps to lead in this effort while at the same time encouraging private participation. In India's 12th five year plan (2012-2017), the government is targeting to spend





# RELIGARE

Values that bind

**financial services penetration in India is currently amongst the lowest in the world**

US\$ 1 trillion in infrastructure investments with around 50% of the investments from the private sector. Such large investments also have spillover effects for other economies in the region – China’s growth has benefited its East and South East Asian neighbors.

Globally, insurance (especially life insurance funds) and pension funds are large investors in infrastructure as such funds provide longer term financing due to the need to match long-term liabilities with long-term assets. In India, it is expected as the penetration of life insurance and the awareness to save for retirement through pension funds increases direct investments in the infrastructure from such institutions will only grow.

### Penetration of financial services

In India, financial services penetration in India is currently amongst the lowest in the world - total assets under management in India are 14% of GDP as compared to 67% in US; India mortgage penetration is just 9% compared to 50% in UK; life insurance sum assured is at 55% of GDP compared to 160% in Singapore; outstanding corporate bonds as % of GDP in India is 9-10% compared to 50-80% of GDP in other developing/ developed countries. This clearly provides a

large opportunity across financial services to tap into.

Favorable demographics will play into the growth of financial services in India. Consumerism and higher savings from the working population is fueling the growth of retail credit demand as well as smaller ticket size loans which are utilized to expand individual businesses. A large number of Non-Banking Finance Companies (NBFCs) have increased their scale to drive asset penetration on account of a wider distribution reach. Specific focus for NBFCs has been the small and medium enterprises (SME) sector.

SMEs play a major role in economic development in any country and India is no exception. SMEs contribute approximately 40% of India’s domestic production, almost

50% of total exports and 45% of industrial employment. The Indian SME sector comprises 95% of all industry establishments, making it a key contributor to the growth of the country. Though SMEs have grown in size, they often lack access to timely and adequate credit to meet working capital requirements providing an opportunity for NBFCs to make financial services accessible to the SME segment. In addition, NBFCs that focus on the meeting the funding requirements of the SME sector have experienced a greater interest from global investors.

### A dynamic democracy

As the most populous democracy in the world, India is also a dynamic and vibrant



democracy. The country operates amidst religious diversity and still continues to grow. No other democratic country in Asia is as large as India. Durability of this democracy is essential to Asia's growth in the future.

India has also benefited from the common law established as an erstwhile English colony. Uniform system of justice dispensation makes it attractive for investment opportunities and it bodes well for the growth of the nation.

### Conclusion

India is on the verge of one of the great achievements in eco-



nomie history. It has the potential to transform itself, from the desperately poor nation of 1985, dependent on the vagaries of subsistence of agriculture and the monsoon rains, into a nation with a diverse services led economy and the world's second largest middle class population. Such an historic shift will inevitable

bring with it stresses and dislocations, but the transition driven by growth in consumption and retail from the working population, infrastructure spending and increased financial services penetration will fundamentally alter the nation making it a growing force in Asia's financial growth.

### References

1. *Asia 2050: Realizing the Asian Century*
2. *Goldman Sachs: India's Rising Growth Potential*
3. *World Economic Forum: Redefining the Emerging Market Opportunity*



**Shachindra Nath**  
Group CEO  
Religare Enterprises Limited

Mr. Shachindra Nath (Group Chief Executive Officer) Religare Enterprises Ltd. carries the overall responsibility for leading all pivotal operations and businesses of the group. He has been associated with Religare since the year 2000 and has been instrumental in building various businesses under the Religare umbrella from scratch.

His strategic agility coupled with hands on approach has been a key to Religare's growth and success over the years. With a career span of more than 20 years, Shachindra is a highly accomplished professional backed by an exemplary academic record. He is a University rank holder for his Bachelor's degree in Law from the Banaras Hindu University, Varanasi. He also went on to pursue a Post Graduate diploma in Intellectual Property Rights from the Amity Law College, Delhi.

Prior to joining Religare; Shachindra has worked in the manufacturing and Financial services sector in various capacities. A great motivator and leader, when not at work he loves to read, contribute to columns, travel and spend time with his family.

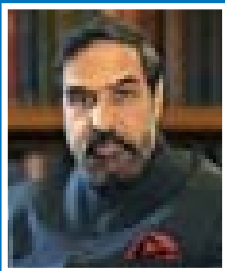


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26-27 November, 2012

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**Stephen Groff**  
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**H R Khan**  
Deputy Governor  
Reserve Bank of India

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## Key Speakers

Anand Sharma, Minister of Commerce & Industry, India  
 D K Mittal, Secretary, Ministry of Finance Government of India  
 H R Khan, Deputy Governor, RBI  
 Jignesh Shah, Founder & Group Chairman, Financial Technologies Group  
 Deputy Governor, Thailand  
 Deputy Minister of Finance, Indonesia  
 Yasuo Fukuda, Chairman, Boao Forum for Asia  
 Deputy Minister, Ministry of Finance, Malaysia  
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Category	Rate Applicable	
	Less Than 3 Delegates	If 3 or More
FICCI Associate Members	INR 10,000/-	INR 9,000/-
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## Issues in Financial Integration and Liberalization in Asia

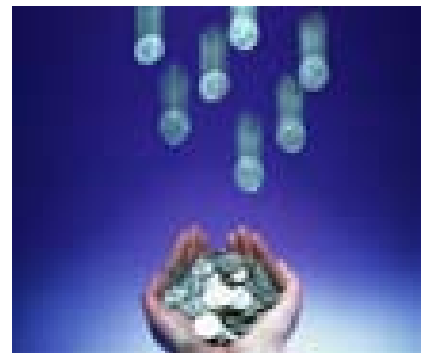
*Mr. Vivek Rao, Sr. Finance Specialist, South Asia Department,  
Asian Development Bank*

### Introduction

Over the last decade, cross-border portfolio investment, foreign direct investment (FOI), and banking activities have been on an upward trend in Asia, as in other regions, except for a sharp decline during the global financial crisis of 2008-09. Relative to GOP, cross-border financial positions in Asia are comparable with other emerging economies of Latin America and Eastern Europe, but substantially smaller than in the euro area (the group of advanced economies that are the most financially integrated). Further financial integration of Asian economies, in particular at

the regional level, would strengthen Asia's domestic sources of growth and improve economic resilience. In particular, policymakers should focus on ways to harmonize legal, institutional, and macroeconomic policy objectives and reduce discrepancies in the stage of development across different financial markets in the region. Such efforts would enhance risk sharing among regional economies at minimal cost of financial contagion. Deeper financial integration with better access of consumers and investors to financial services is also likely to support further economic rebalancing.

*Financial Integration of Asian economies would strengthen Asia's domestic sources of growth and improve economic resilience"*



By facilitating the transfer of financial know-how, financial integration could foster financial innovation and lessen the motives for precautionary savings. Similarly, pressure for greater transparency exerted by foreign investors may reduce asset price volatility, as it would improve the quality and frequency of information. Estimates using the macroeconomic balance approach (which analyzes structural determinants of savings and investment) suggest that if the degree of financial integration in Asia were to be at the global norm, on average across emerging Asia the region's current account surplus would be reduced by about 1% of GDP.

### Key Benefits and Risks to Financial Integration

A potential benefit of financial integration is that it affords countries insurance against shocks. Through borrowing and lending, countries can stabilize their consumption around their long-term potential growth, even with idiosyncratic shocks. Financial integration is an important tool to deepen regional financial markets, strengthen regional sources of funding and reduce the impact on Asian economies from negative shocks, and so allow more "risk sharing". It is also a tool to improve access of consumers and investors to financial services and,



therefore, help rebalance growth by strengthening domestic demand. This "risk sharing" benefit remains low in Asia. Overall, the risk-sharing benefits enjoyed by Asian economies, including China, Japan, and India, are dwarfed by those between the United States and the European Union.

**Contagion risk:** Financial integration also has potential costs, particularly the greater risk of contagion, which can arise through interconnected banking sectors as well as through broader financial linkages. As the recent global financial crisis illustrates, contagion costs can be large, calling into question the virtue of having an integrated financial market. However, in our view most Asian economies have room to benefit more from risk sharing without incurring higher contagion costs.<sup>1</sup>

### Key Challenges to Greater Integration

Asia's legacy of underdeveloped national financial markets and institutions is perhaps the biggest impediment to greater regional financial integration and intermediation. While some economies have more developed financial sectors than others, the traditional dependence on bank financing and the legacy of financial repression have stunted the growth of equity and bond markets in many economies. Likewise, while regulatory frameworks vary across the region and are generally much improved, many countries suffer from an inadequate or weak legal frameworks, low accounting and auditing standards, poor transparency, weak corporate governance, and weak investor protection. Considerable barriers to financial flows still exist in many

<sup>1</sup> Financial crises understandably raise caution against the risks of financial integration. The experience of the Asian economies during the global financial crisis of 2009 again highlighted that their financial markets were vulnerable to global financial turmoil. Although the extent of spillovers from the global crisis into Asian financial markets has been limited, reflecting the region's limited direct exposure to United States subprime mortgages and other problem assets, the progress of financial sector development in the region suggests the next crisis may be different.

Asian economies. Inadequate deregulation and the limited openness of national financial markets impede development. It hinders issuance of local currency bonds, limits investment in foreign bonds by domestic investors, and prevents foreign borrowers from issuing bonds denominated in different Asian currencies. Restrictions on capital account transactions and barriers to entry of foreign financial institutions also impede financial integration.

**Weak financial systems:** The weaknesses in national financial systems are perhaps the biggest impediment to deeper integration. They include insufficient market opening and capital account liberalization; the limited and varying degrees of improvements in transparency, financial regulation, financial supervision, and corporate governance; inadequacies in risk management in financial firms and markets; and the heterogeneity of supervisory, accounting, and auditing rules and regulatory frameworks across countries.

While Asian economies should generally continue to liberalize their capital accounts and promote cross-border financial service flows, prudence is needed. Understanding the degree and dynamics of financial integration in emerging Asia is important for

shaping the region's policies, not only for economic growth and development, but also for financial stability. As markets become increasingly integrated regionally and globally, any convulsion in global financial markets and significant developments in major industrial economies will likely influence the region's equity and bond markets. Efficient financial systems require competition and economies of scale-which ultimately entails exposing national financial markets and firms to international competition. In many Asian economies this has already been accomplished, while in others, the benefits of integration have to be balanced against the risks of liberalization. For the latter economies, progress needs to be measured and prudent.

Steady liberalization is essential, but needs to be accompanied by institutions that can ensure market stability.<sup>2</sup>

At a national level, reforms to strengthen the banking sector and improve its regulation and supervision are vital. So too are the adoption of international prudential norms and standards, and measures to promote the development of financial markets. Capital markets, especially local currency bond markets, should be bolstered to create the liquidity and innovative financial products needed to attract a wider and more diversified investors' base. At a regional level, the priorities are strengthening regional dialogue and financial market surveillance; promoting internationally accepted standards and codes of practice



<sup>2</sup> In India reform of the banking system has been gradual and sequenced, focusing on improving prudential control, recapitalizing public sector banks, and introducing greater competition. Work to introduce the new Basel III regulatory systems is under way. Private Indian banks have been created, and over 30 new foreign banks have started operations. Prudential reforms have been undertaken. These include the establishment in 1994 of a board of financial supervision within the Reserve Bank of India, substantially tightened rules on bad loans, and the convergence of regulatory norms with international best practices. Various legal and technology-related measures have likewise been introduced, such as the strengthening of credit information and creditors' rights, and the development of a dedicated communication backbone for banks. Interest rates have also been deregulated.



and the mutual recognition of minimum standards; fostering the growth of regional bond markets; and building market infrastructure such as regional clearing houses, payment and settlement systems, credit rating agencies, research and training facilities, and data bases.

### The Indian Experience

In the Indian context, the paradigm shift towards liberalization started in 1991 following the balance-of-payments crisis, and was carried forward by several policy measures undertaken in response to the then crisis. The broad approach to external sector reform was laid out in the report of the High-level Committee on Balance of Payments, headed by Dr. C. Rangarajan, in 1993. The devaluation of the rupee in July 1991 and the subsequent transition to the market based exchange rate regime constituted an important aspect of the open trade policy regime. Apart from deregulation of the domestic economy, the objective was to increasingly integrate the Indian economy with the world economy.

The setting up of a road map for capital account liberalization in India (RBI, 2006), sequenced with other institutional policy measures, resulted in significant trade and financial flows in conjunction with other economies of Southeast Asia. India's economic performance has largely continued to be impressive and real GDP growth has been particularly rapid since FY2004, at around and 8% on average. India's

capital account has witnessed a structural transformation, with a shift in the composition from official flows to market-oriented private sector flows. Following the shift in emphasis from debt to non-debt flows, foreign investment comprising direct investment and portfolio flows emerged as the main capital account component.

As a result of pursuing the above approach, India has attracted considerable private flows, primarily in the form of FDI, portfolio investment, ECB and NRI deposits. Consequently, managing the inflows also became a challenge in the management of the capital account. The policy for reserve management is built upon a host of identifiable factors and other contingencies. Similarly, the Indian securities market is increasingly integrated with the rest of the world. Indian companies have been permitted to raise resources from abroad through the issue of American and Global Depository Receipts (ADRs and GDRs), Foreign Currency Convertible Bonds (FCCBs) and ECBs. India has emerged as a major destination for global portfolio equity flows since the late 1990s with an on average share of around 25% of total portfolio flows to developing countries. The geographical sources of portfolio investment inflows show a country's global and regional financial linkages.<sup>3</sup> Thus, the importance of a strong and well regulated financial sector, in order to deal with capital flows that can be very large and might

**Financial Integration, in general facilitates migration of funds from savers to the best users**

reverse quickly, cannot be over-emphasized.

Recognizing their complementary strengths, India is becoming increasingly linked to East Asian production networks. East Asian companies have begun to exploit India's strengths in research and development (R & D), software and design by locating their global R&D centers in India. Several Indian companies have also begun to take advantage of cheaper manufacturing costs for hardware in China and other East Asian countries by rationalizing their production. This trend is likely to become more entrenched as the emerging free trade arrangements between India and Southeast Asian countries come into effect. It is important for India to forge a closer relationship for mutual trade and investment within the Asian region and also to adopt a proactive role vis-a-vis the ASEAN economies. This also brings into focus the need for harmonization and integration of Indian financing systems with global standards.

### Evolving Role of International Organizations.

ASEAN+3's (ASEAN plus China, Japan and Korea) Asian Bond Markets Initiative (ABMI) and Asian Bond Fund (ABF) of the

<sup>3</sup> Singapore appears among one of the top sources of India's portfolio stock investment.

Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) both aim to develop regional bond markets.

**Asian Bond Markets Initiative:** The ABMI has helped widen the variety of local currency issues and improve market infrastructure nationally and regionally. Working groups conduct studies that build consensus among policy makers and address priorities such as the creation of new securitized debt instruments, the establishment of regional credit guarantee and investment mechanisms, the feasibility of a regional foreign exchange settlement and clearance system, and the strengthening of regional rating agencies.<sup>4</sup> The ABMI has encouraged issuance by international financial institutions, including ADB and the International Finance Corporation, as well as by multinational corporations. This has increased the supply of high-quality local currency bonds in domestic markets and raised the bar for subsequent issuers, particularly in terms of disclosure and documentation. It has also led to the design and implementation of a \$10 billion Asian currency note program by ADB, the first multicurrency bond platform to link domestic debt markets in the region. Under the scheme, ADB has issued Asian currency bonds under a unified framework with a common set of documents governed by English law, setting the groundwork for regional issuers.



**Asian Bond Fund:** The ABF promotes the development of national and regional bond markets by directly creating bond funds. The first, ABF1, was launched in 2003 and pooled \$1 billion in international reserves from the 11 EMEAP central banks. ABF1 invested these in dollar denominated sovereign and quasi-sovereign bonds issued by eight economies—the PRC; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; and Thailand. The second, ABF2, initially comprising \$2 billion of pooled central bank reserves, was introduced in December 2004. Half was allocated to the Pan-Asian Bond Index Fund, which purchased local currency sovereign and quasi-sovereign bonds from the same eight EMEAP economies; the other half went to the Fund of Bond Funds, a parent fund divided between

eight single-market sub-funds. Unlike its predecessor, ABF2 was designed to be listed in individual markets and opened up to private investors. The ABF framework has made local currency bonds more attractive to investors and helped develop deeper and more liquid national bond markets. It has also encouraged regulatory and tax reforms including prompting some governments to offer withholding tax exemptions on investment income to nonresident investors (Malaysia and Thailand) and loosen capital controls (China and Malaysia).

**Improving bond markets in Asia:** The ABMI and the ABF spur governments to fast-track bond market reforms. ABMI working groups have addressed specific barriers to bond market development, nationally and regionally. By supporting international best practices and

<sup>4</sup> In the years ahead, it is envisaged that the ASEAN + 3 + 3 (India, Australia and New Zealand) network would help India to share and cooperate on various financial issues, in the way the present network of ASEAN + 3 has consistently engaged in an economic policy dialogue of unprecedented scope and depth.

exercising peer review, these groups are instrumental in establishing infrastructure benchmarks, while neighboring economies' reforms encourage a redoubling of national. The "learning-by-doing" element of the ABF program has given policy makers and regulators a deeper understanding of the practical impact of market impediments, such as capital controls, withholding taxes, and regulatory hurdles.

### Conclusion

Financial integration, in general facilitates migration of funds from savers to the best users. It ensures investors against idiosyncratic risk and encourages investors to invest in projects with higher returns, and well developed financial markets lower transaction costs and therefore encourages specialization. Authorities should thus aim at developing well-regulated competitive financial systems. This re-

quires (i) improvement in regulatory systems in which the market operates and in the provision of information to market participants; (ii) reasonably-developed legal system that protect minority shareholders, among others; and (iii) high standard accounting system in place. However, strong domestic financial institutions and stable macroeconomic condition are required to minimize the adverse effects of such openness.



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## India at Cross-Roads-Issues and Concerns

*Dr. Manoranjan Sharma, Chief Economist, Canara Bank*

While India was not significantly impacted by the global economic turmoil, it was susceptible to the financial meltdown. Further, the economic deceleration caused by the double whammy of fiscal and current account deficits, high consumer and industrial inflation, low real wage growth, contraction in investment, and absence of any real headway on Goods and Services Tax (GST), Direct Taxes Code (DTC) hampers economic recovery. Thus the 'new normal' has been characterized by a paradigm shift

from a 'high growth economy' to 'stagflation economy' and the 'irrational exuberance' of 2007 gave way to unbound and ubiquitous pessimism reflected in Standard & Poor's reducing its India growth forecast to 5.5 % from 6.5 %. S & P's Report stressed "The lack of monsoon rains has affected India, for which agriculture still forms a substantial part of the economy. Additionally, the more cautious investor sentiment globally has seen potential investors become more critical of India's policy and infrastructure shortcomings". There

*Skewed development, widespread leakages and considerable divergence between 'outlay' and 'outcome' have led to a development deficit*



have, however, been welcome developments, viz., FDI's in single, multi-retail and aviation sectors, hike of Rs. 5 in diesel prices and disinvestment in 5 PSUs together with QE 3 infusing liquidity.

Post-October 2008, the global financial architecture was rocked by a series of banking distress and even failure of iconic banking and financial institutions. But despite global interconnectedness, banks in India, unlike the US and other developed countries, did not face a systemic crisis. The strength and soundness of the banks in India is attributable to India's democratic polity, sound financial performance, prudential regulations, calibrated financial reforms and limited exposure to exotic products.

### Banking-Economic Growth Driver

Indian banking is relatively much stronger vis-à-vis other Asian counterparts in terms of product range, range of investment, financial options for depositors and financial health of primary and secondary capital markets. Return on equity and assets of the Indian banks are comparable to Asian banks, and higher than those of US and UK.

Banking sector, which has a predominant share in the Indian financial system, is critical to achieving a market-driven, productive and competitive economy. During 2000-12, financial health of the Scheduled Commercial Banks (SCBs) improved significantly in terms of reduction in Gross NPAs from 14 % to 2.9 % at end-

March 2012; cost-income ratio from above 60 % to 45.3%, and a reduction in intermediation cost. Simultaneously, RoA increased from 0.69 % to 1.10 %, total assets from Rs. 1, 151, 000 crore to Rs. 52,93,817 crore and business per employee rose. Further, banks diversified into non-traditional activities, such as, investment banking, insurance, credit cards, depository services, mortgage, securitization, etc. With intensified competition both within the banking sector and from other segments of the financial sector, such as, mutual funds, Non Banking Finance Companies (NBFCs), post offices and capital markets, the banks must achieve steady growth in business and productivity, profits and profitability.

### Systemic Risk

Systemic risk, which drives most crises, refers to the possibility that a highly non-linear event, such as, the failure of an individual firm, will seriously impair other firms or markets and even negatively impact the broader economy with high social costs on those

completely irresponsible for causing the crisis. This debilitating process could trigger a vicious cycle of eroded confidence in financial markets and regulators, stringent regulation, the expansion of the state, and move towards protectionism. The vulnerability of banking sector of developing countries is starkly reflected in macroeconomic fluctuations, excessive exposure to sensitive sectors and political interference in their operations. The financial and economic crisis is morphing into a sovereign debt crisis in advanced economies (AEs). IMF suggests that 75% of the "fiscal stimulus" in AEs comprises non-discretionary counter-cyclical measures.

### Euro Crisis

The recent slowdown of AEs is both a cause and an effect of the sovereign debt crises in the European Union (EU) and the concomitant fiscal problems. Initial worries about the solvency of Greece from late 2009 stemmed from high deficits, fake budget figures and low growth. But the problem of sovereign debt crisis



stemmed from rising government debt levels and a downgrading of government debt of “peripheral” sovereigns like Greece to the bigger “core” European countries, such as, Spain and Italy.

Post 2009, the problem of sovereign debt increases accentuated across EU. But these problems aggravated for Portugal, Italy, Ireland, Greece and Spain (PIIGS). PIIGS are characterized by high structural deficits, odious debts, debilitated financial system, vulnerable banks, low prospects for high and sustained growth and low productivity improvements. Globalized finance; lax credit standards (2002-08) fostered highly risky lending and borrowing practices; global trade imbalances; grim reality of the reality; pronounced deceleration in economic growth; and limited scope for fiscal and monetary maneuver worsened matters.

### Systemic Risks and Financial Stability in India

India withstood the direct impact of global financial crisis, risks to financial stability increased because of turbulent global economic conditions and deteriorating domestic macroeconomic fundamentals, viz., global sovereign debt problem, the domestic fiscal position, widening current account deficit and structural aspects of food inflation, i.e., shift from cereals to higher-order food-pulses, vegetables, milk, eggs and meat (‘kebab-driven inflation’). The impact of global developments on the Indian economy was,



however, transmitted by the 7 Cs of commerce, commodity price, capital flows, currency rates, contamination, confidence and credit rating.

Coordinated action by the government and regulators restricted volatility in the financial markets. However, because of inter-linkages with the affected AEs, Emerging and Developing Economies (EDEs), including India experienced moderation in GDP growth, volatility in capital flows and equity markets, exchange rate depreciation and persistently high inflation. There are also factors like EU crisis, Chinese slowdown and “fiscal cliff” of the US.

Financial stability in India implies ensuring uninterrupted settlements of financial transactions - both internal and external, confidence in the financial system amongst all the participants and stakeholders, and absence of excess volatility adversely affecting real economic activity. As the Prime Minister recently stressed, we need to reawaken the ‘animal spirits’ of entrepreneurs with improved

governance and initiate second-generation economic reforms to reverse growth deceleration. The political and bureaucratic system has to provide the prerequisites to growth and facilitate decisive action on tricky economic issues.

Systemic risk can develop because of a single factor, but may also develop through factors, such as, contagion (inter-connectedness) and common exposures, procyclical nature of financial system and prudential regulations (leverage and maturity mismatches), regulatory arbitrage due to limited perimeter of regulation (complex products, institutions, markets), financial innovation (opaque and poorly understood products) and OTC derivatives (inadequate infrastructure).

The issue of measuring systemicity and assessing resilience requires an identification of the domino effect, the potential market impact of the fire sale of assets by distressed financial institutions, the provision of payment and settlement systems and the reputational impact of the

failure of a financial institution on other financial institutions.

Stress testing measures could be 'top down' or 'bottom up' or even a mix of both. Banking Stability Measures in Banking System's Portfolio Multivariate Density, including a 'Toxicity Index', a 'Vulnerability Index' and 'Cascade' effects evaluate the systemic significance of individual banks. The Vector Autoregression (VAR) approach evaluates the impact of macroeconomic shocks on the stability of the banking system. Coincident stability indicators help in assessing financial stability, temporal development of risks and implementing an early warning framework.

Major risks to financial stability in India include:

**Global Macro-economic Instability** emanating from deepening EU crisis and global slowdown impact Indian economy through trade, finance, capital flows and business confidence and hamper domestic growth and balance of payments (BoP).

**Domestic Macro-economic Issues-** Growth of 6.5% during FY12 from 8.4% in FY 11, 5.5% in Q1 of FY 13 vis-a-vis 8% in Q1 of FY12; high inflation and inflationary expectations; large fiscal and current account deficits; low exports growth; low IIP growth.

**High Fiscal Deficit** - High fiscal (5.9% in FY12) and primary deficits in 2011-12 and likely high fiscal risks in FY 13 imperil macroeconomic stability and growth sustainability. High fiscal deficit widens the trade deficit, impacts the BoP position and



constrains further fiscal stimulus measures.

**High current account deficit (CAD).** CAD of 4.2% (highest since the BoP crisis of 1991) of GDP in 2011-12 adversely impacts India's external debt and, consequently, financial stability. Widening CAD and muted capital flows accentuate pressure on the rupee. CAD is being increasingly financed by debt flows, threatening long-term sustainability.

**Inflation Risk.** Decelerating growth and persistently high inflation; large potential impact of the lagged pass-through of rupee depreciation; suppressed inflation in energy and fertilisers and possible fiscal slippage are worrisome. Despite significant slowdown in growth, there is only some moderation in core inflation and not in headline/CPI inflation because of serious supply bottlenecks and downward 'sticky' inflation expectations.

**Volatility in Rupee.** The rupee fell sharply against US \$ since August 2011 because of European debt crisis, flow of funds to safe-

havens, higher dollar demand from oil importers, a widening CAD and a slide in equity markets.

**Interconnectedness.** Increased interconnectedness of institutions/markets due to globalization, financial innovations, business strategies, technology and product characteristics.

Despite these risks, the overall stability of the financial system remained robust with a sound banking system and a good regulatory architecture.

## Indian Banking System-Challenges

**Competition:** Indian Banks need to enhance business volumes, retail marketing skills, customer service and risk management capabilities.

**Managing existing customers and improving customer service** because of the transformation from the traditional banking mode to a customer-centric banking system. Given relatively low switching costs; customer retention requires customized service and hassle free, flawless service delivery.

**Human Resources Management:** Basel III norms require well-developed risk management/information systems, and technology. Attracting talented workforce and transforming human resources is needed for forays into non-traditional activities like investment banking, mutual funds, new financial services and products.

Compliance with Basel III stipulations, convergence with International Financial Reporting System; expanding the reach; funding future high GDP growth; improving support infrastructure; enhancing risk management capabilities; adopting more customer-focused technology; reducing transactions cost; ensuring KYC and AML compliance; reducing entry barriers through new licences to banks; effective Corporate Governance; managing asset quality concerns are some important challenges confronting banks. It is also necessary to balance the real and financial sector reforms.

### Strategies

**Customer Service:** Thrust on prompt and efficient customer

service; understanding of the customer and fulfilling their needs by providing quality products and services, and achieve high levels of customer retention.

**HR Issues:** Thrust on talent management; identification of competent personnel and nurturing them through a systematic organizational plan; market-related compensation systems for key positions; performance-linked incentive for staff especially staff in PSBs.

**Technology Issues:** Alignment of Technology and Business objectives to ensure adequate operational and management control of appropriate technology solutions.

Leveraging of technology and popularisation of tech-enabled products with huge potential, e.g., internet banking, mobile banking, BC/BF model, electronic payment systems, mobile banking and financial inclusion.

Strengthening of oversight and governance mechanisms to control IT costs, holistically evaluated technology deployment decisions,

**The strength and soundness of the banks in India is attributable to India's democratic polity, sound financial performance, prudential regulations, calibrated financial reforms and limited exposure to exotic products**

customer-centric solutions/process changes.

Leveraging technology for financial inclusion; greater thrust on IT security, e.g., monetary loss, data theft, breach of privacy and banks need to be extremely cognizant of such risks.

**Risk Management:** Enterprise-wide assessment of both quantity and quality of risks, adequate and appropriate stress-testing, portfolio aggregation of risk capital, and determination of economic equity.

Adequacy of capital and a framework for risk based pricing of products and services foundation with an efficient Transfer Pricing Mechanism (TPM), a scientific cost-benefit framework for products and services, and adoption of profit accountability by banks transcending risk accountability.

3 pillars- a risk-return trade-off for all businesses to operate at the optimal point on the risk-return matrix to ensure bank's liquidity incessantly, except in some tail risk or black swan events and bank's perpetual solvency.





**Recovery:** Adroit management of NPAs and recovery of bad debts; reduce slippages with an ongoing real-time tracking system of repayment of loans, constant follow-up and monitoring.

**Profits and Profitability:** Reduce cost of deposits by thrust on CASA, increase yield on advances by greater lending to the retail and MSME sectors to increase NIM and profits and profitability; focus on retail, agri-business, MSME and other rural areas will broad-base the portfolio, provide new business avenues and enhance profits; accent on non-interest income and cross-selling to generate stable and new revenue streams.

### Going Forward

The long term growth prospects of Indian economy look reasonably optimistic. Indian economy is one of the fastest growing major economies globally. Growth of services, high savings and investment rates, favorable financial market conditions, increase in capital flows, moderating inflation and positive business outlook would help the economy to broad-base the growth momentum. However, the medium term growth prospects depend largely on external macro economic conditions and proactive domestic policies.

Strengthening of the financial system requires coordinated and concerted measures by the RBI, the Government and banks to surmount structural and cyclical obstacles through appropriate domestic macro and micro-economic policies, credible action for fiscal consolidation, tax reforms



and predictability and tempering inflation and inflationary expectations.

Skewed development, widespread leakages and considerable divergence between 'outlay' and 'outcome' have led to a 'development deficit'. While strong 'domestic consumption story', high domestic savings, favourable demographics and sustained increase in per capita income will facilitate sustained economic growth, there is a manifest need to sharply focus on the 7L deficits of Land, Linkages, Labour, Legal, Liquidity, Leadership and Learning deficits to streamline the political - administrative - regulatory framework for improving "Doing Business Ranking" (India ranked 132 among 183 nations in terms of overall ease of doing business indicators in 2012).

Central Banks, prudential regulators and other regulatory controllers must identify potential systemic risks and stabilize financial markets through durable reforms necessitated by innovations in instruments and processes, advances in technology

and increasing volumes of capital intermediated by the financial system. This, inter-alia, requires supplementing strong microprudential regulation with a macroprudential policy overlay for both "systemic oversight" and "macro-prudential regulation".

The instruments of tackling time dimension of systemic risk (procyclicality) relate to reduced procyclicality of the minimum capital requirement, capital conservation buffer, countercyclical capital requirement, countercyclical provisioning, compensation policies, higher provisioning and/ or risk weights for rapidly growing sectors, LTV ratios, direct controls on lending to specific sectors, capital surcharges for Systemically Important Financial Institutions (SIFIs), liquidity requirements, limits on currency mismatches and loan to deposit ratios.

Cross-sectional dimension of systemic risk is addressed by continuous monitoring of identified SIFIs based on size, interconnectivity, substitutability and other criteria and calibrated prudential

tools (capital, liquidity, leverage, etc.) for them.

There have been welcome moves to make the financial institutions and markets more transparent, less complex, and less leveraged. Ultimately, the success of measures to make the financial system safer rests on effective implementation of reforms and strong supervision.

In India, financial market regulators, particularly the RBI, have a catalytic role in addressing systemic risks because key segments of Indian financial system (money market, Government securities market, forex market and commercial and cooperative banks, NBFCs) are regulated by RBI. High Level Coordination Committee on Financial Markets coordinates among RBI, Securities

and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA). The regulators have progressively streamlined regulation of non-banking entities; NBFCs owned by foreign banks, and regulated by RBI included in the Group concept with the foreign bank branches to contain the regulatory arbitrage though legally they do not constitute a Group; an elaborate prudential framework for systemically important non-deposit taking NBFCs; consolidated supervision of banking groups. RBI is also the regulator of Payment and Settlement Systems.

Further, there are limits on banks' equity investment in individual financial subsidiaries/ affiliates; banks are prohibited

to enter activities not incidental to banking and also disallowed to establish subsidiaries for activities, where banks are not prohibited. Capital requirements for banks' sponsoring of private pools of capital are governed by reputational risk considerations.

The regulators have also implemented measures for greater transparency and disclosure; and enhance confidence in markets, e.g., prudential limits on capital market exposure, thrust on quality of regulatory capital, higher RW and/ or provisioning requirement for exposure to sectors with high credit growth. Balancing financial supervision and overregulation, however, remains a challenge for Indian financial market regulators.



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Dr. Manoranjan Sharma, the Chief Economist of Canara Bank, has over 300 publications including in *The Business Review* (Cambridge), *Occasional Papers* (RBI-Mumbai), *Bank Quest*, *CAB Calling*, *Professional Banker*, *Analyst*, *Yojana*, *The Indian Banker*, *The Economic Times*, *Business Line*. He has presented papers at several national and international Conferences and delivered Keynote Addresses at various Universities. Widely traveled both in India and abroad, Dr. Sharma has made presentations and Chaired Sessions at Conferences organised by Marcus Evans (Malaysia), Terrapinn Pvt Ltd. (Singapore), Naseba (Paris), Max Planck (West Germany)- Indian Institute of Science (IISc), Bangalore and World Association for Sustainable Development (London).

His five edited books, viz., *Leading Issues in Indian Economy*, *Studies in Money, Finance and Banking*, *India's Transforming Financial Sector*, *Dynamics of Indian Banking and Indian Economic Policies and Data* have been globally acclaimed. His views have been cited in the Parliament, *The Associated Press* (New York), *Dow Jones* (New York), *International Herald Tribune* (New York), *The Economic Times* and *Wall Street Journal* (New York).

Dr. Sharma has First Class Bachelors degree, First Class First Masters degree in Economics, First Class Postgraduate Diploma in Business Management and PhD.



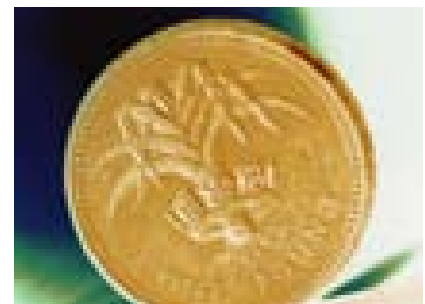
## Turkey-India Cooperation amidst Global Economic Transformation

*H.E. Burak Akçapar, Ph.D,<sup>1</sup> Ambassador of Turkey to India*

One of the lesser cited indications for the ascendancy of Asia in the global economy is the growth that Asian financial markets have achieved over the last decade. World Federation of Exchanges (WFE) reports that the share of the sixteen regulated exchanges in the Asia-Pacific region reached 31% of the aggregate value traded among its fifty-two members in 2011. Compare this with the figure that by 2003 the share of

the same sixteen exchanges was merely 20% of the total. In fact, the WFE also reported that since 2009 the value of stocks trading in the Asia-Pacific region has overtaken that of European and Middle Eastern stock exchanges. Today some US\$1.4 trillion in shares are traded in sixteen Asia-Pacific members, compared with US\$1.2 trillion for its twenty-six members in Europe, the Middle East and Africa combined. Only the six exchanges in the Americas seem

*Downside risks have become more pronounced and uncertainty weighs heavily on prospects.*



<sup>1</sup> Thanks to Mr. Çağlayan Koç for his contributions. This article reflects my personal views and all errors and omissions are mine alone.

ahead of the Asia-Pacific. This and numerous other indicators consistently underscore a profound shift in global economic power that has yet to be reflected in the global institutions and power arrangements. There is a global institutional dislocation, the severity of which may grow even further in the time ahead.

Basic tenets of the post-World War II international order including the UN Security Council, the IMF and the World Bank and the informal G-7 or G-8 have been under increasing strain to cope with the pressure of this dislocation between the reality on the ground and the systemic choices made in response to a very different set of global circumstances in the past. Throughout history institutional readjustment has been one of the most difficult transitions for human societies and polities, second perhaps only to wars in the trauma caused. In view of the impossibility of swift and effective action to address the current institutional requirements several semi-institutionalized fora have been sprouting both regionally but also trans-regionally. These include the BRICS and the G-20.

The BRICS has been an idea generated at the turn of the 21st century by the global financial services company Goldman Sachs and successfully implanted to real life as of 2006. Brazil, Russia, India, China and South Africa held the fourth summit level meeting of the BRICS in New Delhi on March 29, 2012. The BRICS have begun to reverse the West-to-East direction of criticism and advice

and voiced rather strong calls for reform and action on the part of the developed economies. It has also initiated work on some potentially important endeavors such as a South-South Development Bank. However, the shortcoming of the BRICS is basically the same as the shortcoming of the G-7: it is not representative with its current composition despite its self-appointed aim of representing the emerging markets and nations. For all intents and purposes BRICS formula narrowly keeps with the Goldman Sachs composition rather than including the rest of the US\$11 trillion worth Emerging Seven (E-7) such as Turkey, Indonesia and Mexico, for no apparent reason or indeed utility.

For all intents and purposes, a genuinely important and useful forum in our day and age seems to be the G-20. The G-20 comprises top 19 national economies of the world as well as the EU. I will hazard thoughts on this all promising organism that to me has the potential to survive into the next world institutional order. However, first a birds-eye overview of current

global economic outlook.

Despite the extraordinary measures taken by the governments in the post crisis period with the help of the G-20, the recovery was not strong enough to address widespread concerns. In fact, global recovery has suffered new setbacks in recent months. Downside risks have become more pronounced and uncertainty weighs heavily on prospects. A key reason is that policies in the major advanced economies are not rebuilding confidence in medium-term prospects.

Challenges in global economy continue to pose downside risks also for Asia. Economic activity in developing Asia is expected to slow down with projections for growth being 7.1% for 2012 7.5% for 2013. Compare this to levels of 7.8% in 2011 and 9.7% in 2010. If realized, the slowdown would be a worrying downturn. The continuing fragile economic conditions in advanced economies could affect Asia whether in terms of slumping exports or in diminishing capital flows. A hike in commodity prices could in turn increase inflationary



pressures and pose challenges for governments in dealing with food and energy subsidies.

It is no secret that large capital flows toward Asia and the rest of the developing world have been a significant engine for growth in those countries. As Ruchir Sharma rightly pointed out in his book *the Breakout Nations*, the developing world has come to regard development as a relatively easy phenomenon whereas that is surely not the case over the long haul. Potential political implications, while surely differing from one country to another, would nonetheless be something the governments would need to watch out.

In spite of bold policy actions taken to resolve the euro-area crisis, market uncertainty remains. This is due in no little part to low confidence owing to failure to address concerns over the capacities of the several EU countries to deliver the required fiscal and structural adjustments. Similarly, doubts about the readiness of national institutions to implement pan-euro area policies, and questions about the capacity of the ECB and the EFSF/ESM to deliver adequate responses worked against market confidence.

While EU struggles, the largest national economy in the world has also slowed. Real GDP growth decelerated to 1.7% in the second quarter in the United States. The impending “fiscal cliff” remains to be another issue awaiting quick resolution. At the time of writing, the IMF Managing Director Christine Lagarde was warning that U.S. tax increases and



spending cuts set to take effect by the beginning of next year posed one of the biggest risks to the global economy. Combination of the fiscal cliff, euro crisis and medium term public financing deficits are “three key risks” she said in September 2012 meeting of the Asia-Pacific Economic Cooperation Summit in Vladivostok, Russia. While the policymakers in the Euro area and the US have to deal with the major short term economic challenges that their economies face, over the medium term, the most important challenge before the economic policy making is the question that how the global economy will operate in a world of high government debt. As such all the three key risks can impact on the developing world and indeed Asia. Sustaining strong growth and rebalancing domestic and external sources of growth are now questions haunting the emerging market economies and I suspect governments.

I think that from the above outlook the obvious messages globally are four-fold: No government can handle this crisis

alone; developed and emerging markets and governments must work together; G-20 stands out as a critical instrument that must be maximally utilized and developed; the current set up including the staff leadership of the Bretton Woods organizations cannot continue.

G-20 pulls together an impressive outfit. Together these nations represent 90% of the global economy, 80% of world trade and two thirds of the world population. Since 2009, the G-20 provided a new energy and reassurance that is critical for the global economy. The platform also initiated significant reforms to reinforce the legitimacy and credibility of Bretton Woods institutions. In reflecting the contemporary reality rather than an outdated theory, the G-20 allows emerging markets to participate in the global economic policymaking on even keel with developed markets.

Since the rapid collapse of the values of securities tied to U.S. real estate bubble engendered the worst financial crisis since the Great Depression of the 1930s,

Turkey has emerged as a strong proponent of global economic cooperation and the G-20 as its embodiment. Turkey believes that the G-20 should continue to work on further improving the international financial institutions, provide a forum for consultations on economic and financial challenges, and exert every effort to advance living conditions across the globe. We also believe that G-20 carries further potential in global governance which is yet to be fully explored and exploited. The meeting of the Ministers of Foreign Affairs of the G-20 during the Mexican presidency has been a small yet welcome step in unearthing this potential.

This year, Turkey has been co-chairing the International Financial Architecture Working Group under the G-20 which deals with such important issues as increasing IMF resources, improving the IMF surveillance, reviewing the IMF quota formula, developing the local currency bond markets and exploring ways to boost financing for investment. Whereas the work on IMF resources and IMF surveillance issues has already been successful, deliberations on other issues are still continuing. Turkey will chair the G-20 in 2015, and thus be part of the Troika starting from 2014.

The G-20 strives to ensure that all financial markets, products and participants are regulated or subject to oversight in an internationally consistent way. The G-20 financial regulatory reform agenda covers a wide range of topics while the Financial

Stability Board (FSB) coordinates this agenda at the international level. Based on FSB's coordination with national standard-setting bodies on the policy development a set of priorities have emerged, including the Basel III framework, policy measures for systemically important financial institutions, resolution frameworks, over the counter derivative market reforms, shadow banking and credit rating agencies. Full and consistent implementation of financial regulations in these priorities would be needed for global financial stability.

There is a widening base of consensus on the need for a multi-pronged approach in strengthening financial regulatory and supervisory frameworks. A particular focus that seems to emerge relates to reflecting the emerging market economies' perspective in the reform agenda fully and correctly. Emerging market traits and emphases would need to be accounted for while designing new policies and standards with the full participation

of these nations. However, this requires a more fair representation structure and giving more voice to emerging market economies in the FSB governance. Improving the effectiveness of the FSB has much to do with receiving broad support from the emerging market economies.

Turkey has been an impressive success story. Politically she has consolidated her position as a pluralistic and secular democracy. In foreign policy, Turkey has developed networks and capabilities to make positive impact on a wide range of key regional and global issues thanks to its proactive, energetic, and multi-regional foreign policy. This foreign policy supports formation of democratic stability in Turkey's neighborhood. In economic sense, Turkey is the key engine that might transform the economies in Western Asia and increase welfare for all. Much of her economic success is due to the energy and skill of Turkey's entrepreneurs and workers. But, structural reforms in the financial sector have been



also been critical in consolidating Turkey's position as a confident free market economy showing light at the end of the tunnel to some USD \$23 trillion in her economic neighborhood.

Since the crisis in 2001 Turkey has taken determined steps to strengthen her finances. To that effect critical structural reforms were enacted to address key vulnerabilities in the banking sector and public fiscal balance sheets. Notice that such vulnerabilities have been the root causes of extant problems in advanced economies.

The regulation and supervision framework for the banking sector has been strengthened starting from early 2000s. New legislations in banking, credit cards, mortgage sector and saving deposits insurance system have prevented systemic risk built-up and reduced vulnerabilities in the financial system. The strong banking sector and improved fiscal discipline has enabled Turkey to avoid a financial crisis in parallel with the US and EU. The strength and

health of the capital structure of Turkey's banking system is now among Turkey's key strong suits.

Turkey has also made a determined effort to improve the government's fiscal balances. The budget deficit and public debt stock were already down to moderate levels before the onset of the global crisis. Successful implementation of the Public Fiscal Management and Control Law enacted in the first half of 2000s improved the public financial management and strengthened strategic planning and budgeting practices. In line with the reform objectives, the Government introduced Medium Term Program framework that defines macroeconomic policies, indicative and main macroeconomic targets for coming three years. The Medium Term Program (MTP) announced in 2009 proved to be very successful in giving markets a clear signal of government's economic policies during the global crisis and adherence to the MTP was one of the reasons for the improved confidence in Turkish economy.

**There is a widening base of consensus on the need for a multi-pronged approach in strengthening financial regulatory and supervisory frameworks**

The Government also took steps to reform social security system in 2008. This reform aims to alleviate the pension burden on the budget over the long term via adjusted pension parameters, gradually increasing the retirement age and contribution period and reducing the accrual rate. These alongside Turkey's political stability have given Turkey's economic partners much confidence.

On the back of Turkey's strong macroeconomic fundamentals and growth performance, total market capitalization of Istanbul Stock Exchange (IMKB) has increased approximately 5.5 times between 2003 and 2011 and reached USD \$202 billion with 363 companies listed. The IMKB has become the 8th largest stock exchange among emerging market countries as the total value of shares traded hit USD \$413 billion in 2011. The from a mere USD \$0.4 billion in 2003. The share of foreign participation (as percentage of free float) is up to 63% in April 2012 from 52% as of 2003. The IMKB has also taken over the title of the world's 8th largest bond market with the total value of bonds trading topping USD \$518 billion in 2011.



Although Indian investors are already showing increasing interest in Turkey, I believe we are only beginning in exploring the full economic potential of Turkish-Indian cooperation. This goes also for government-to-government cooperation in global economic issues. For instance, Turkey and India have much to gain from the reform of the International Financial Institutions (IFIs), notably timely implementation of the IMF 2010 quota and governance reform with its all aspects. This reform agenda consists of a doubling of quotas, transformation to an all-elected Executive Board, completion of quota formula review by January 2013 and of next general review of quotas by January 2014.

Turkey sees merit in discussing adequacy of IMF's quotas and their distribution within the G-20. The last tide of reforms in the IMF has been initiated by the G-20. The G-20 leaders have many times reconfirmed their commitment to reform the IMF to "better reflect the relative weights of the IMF members in the world economy, which have changed substantially in view of strong GDP growth in dynamic emerging markets and developing countries." The deadline set by the G-20 leaders to conclude the 15th review of quotas is January 2014. Needless to say, the quota review is a highly contentious and politically charged issue requiring political consensus on many aspects. Thus, the G-20's involvement will be critical in ensuring a consensus and brokering a deal among

important members of the Fund. Collaboration between Turkey and India will facilitate the compromise needed and aid the overall process.

Turkey and India are both members of the G-20 and are continuing their ascent among the largest economies of the World. They are among the most remarkable success stories of our day and age. Given the package of assets they can bring to the table, the relationship between these two friendly countries can have a beneficial impact both on their respective economies and indeed on the future of the Asian century. Turkey looks at India's rise with admiration and joy and I know the feelings are mutual. The relationship between the two countries is marked by friendship and is problem-free. There is also much room for growth in bilateral relations. This is particularly true in trade and tourism flows. For this to happen a free trade agreement and a new civil aviation agreement are needed and awaiting India's approval.

## Keeping the Luster of Emerging Economies

While several advanced economies lost momentum in 2012 compared to 2011, and the EU seems not yet recovering from its abyss, economic expansion in United States can kick in to support global economic recovery significantly in the coming quarters. This may be good news for the emerging economies, which have been experiencing a slowdown in economic activity due to weak external demand conditions, but also due to tight policies designed to stifle domestic inflation. During the first half of 2011, emerging economies had to tighten monetary policy aggressively due to the rise in commodity prices. In the same period, the advanced economies started to feel the strong effects of European debt crisis and demand from these countries deteriorated. Emerging economies with tightened monetary conditions lost momentum and in the second half of 2011, they started to loosen monetary policies gradually using the room made available by the decline in





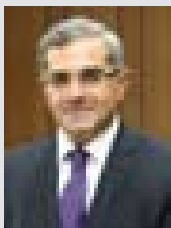
commodity (particularly food) prices. Most emerging economies still continue to lower interest rates. According to IMF forecasts, emerging economies would grow by 5.6 percent in 2012 slowing down from 6.2 percent in 2011.

This is not however a time to turn inward which would likely be counterproductive. To the contrary, strong economic and commercial leadership is required to promote growth through greater liberal vigor in both

demand and supply. I believe that a speedy negotiation of a free trade agreement between Turkey and India is also a growing necessity that is part and parcel of the big picture.

Dr. Burak Akçapar has been appointed as the Republic of Turkey's Ambassador Plenipotentiary and Extraordinary to the Republic of India as of May 2011. He is also accredited to the Federal Democratic Republic of Nepal; Democratic Socialist Republic of Sri Lanka; and the Republic of Maldives.

Dr. Burak Akçapar had served at the Turkish missions in Qatar and Germany between 1988 and 97. Between 1997 and 2002, he was with NATO International Staff, where he facilitated the efforts to promote regional cooperation among Balkan countries. While working on Partnership for Peace, Euro-Atlantic Partnership Council and security sector reform he received NATO Secretary General's Award for Excellence. 2008-2009 and 2002-2004: He was twice the Head of the Planning Department at Directorate General for Policy Planning of the Ministry of Foreign Affairs in 2002-2004 & 2008-2009. He was also the first Political Counselor of the Turkish Embassy in Washington DC in 2004-06. Between 2006 and 2008 he was the Deputy Chief of Mission of the Turkish Embassy in Washington DC, where he coordinated and steered the Embassy's entire range of activities under the supervision of the Ambassador. He became the Deputy Director General for Political Affairs focusing on South Asia at the Turkish Ministry of Foreign Affairs in 2009-2012. He was also the Turkish Representative to the International Contact Group on Afghanistan and the co-chairman of that body's Working Group on Regional Cooperation.



**H.E. Burak Akçapar**  
Ph.D, Ambassador of  
Turkey to India

Dr. Akçapar has completed a variety of academic degree and executive training programs at a number of colleges and universities in Turkey, Germany and the United States. He also taught a course on international security at the Middle East Technical University in Ankara. He holds the rank of Associate Professor in the academia and has published two books: Turkey's New European Era (2006, Rowman and Littlefield) and The International Law of Conventional Arms Control in Europe (1996, Nomos); as well as two book chapters on arms control and partnership for peace; and numerous academic articles and papers on a range of international issues. His last publication was the occasional paper The Nascence and Senescence of World Orders (2009, Portland State University).



## Solid Growth Needs liquidity

*Ms. Naina Lal Kidwai, Sr. Vice President, FICCI & Director, HSBC Asia-Pacific & Country Head India*

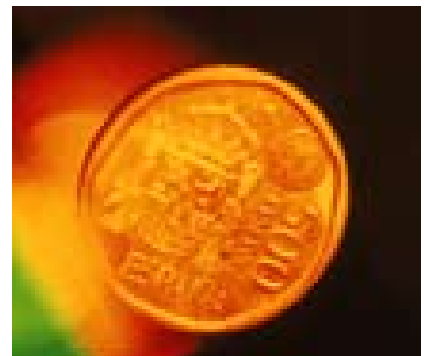
**I**t has been a rollercoaster ride for global banking and capital markets. Economic and political upheavals have wreaked havoc. Even before the global market could recover fully from the sub-prime crisis, a series of crises—the Middle East turmoil, earthquakes in Japan, the Euro zone's sovereign debt crisis, downgrading of the US government's credit rating, and increasing commodity prices—dented global growth rates and sentiment. Due to stringent regulations and supervision, and the rupee being only partially convertible, the Indian banking sector has remained relatively

isolated from international developments.

Having said that, India's growth rate is currently showing signs of slowing down. Registering an average GDP growth rate of 8.4 per cent in the past five years, the economy skidded to 5.5 per cent in the first quarter of FY2012-13.

A weakening currency, lower industrial production, volatility in financial markets and flickering investor sentiment are all indicators of a slowdown. While the Indian banking system has managed to remain relatively decoupled from the global economic conditions until now, it will be difficult for it to stay unaffected in the long run,

*A weakening currency, lower industrial production, volatility in financial markets and flickering investor sentiment are all indicators of a slowdown*



despite the support of a robust financial system.

The Indian banking sector has evolved over the last decade from being merely a source of capital and repository of excess funds, to offering broking and advisory and wealth management services and also distributing mutual funds and insurance products. Banks also carry the onus of financial inclusion, and are required to comply with priority sector norms.

Economic liberalisation set in motion in 1991 and the opening up of the banking sector in 1994-95 helped Indian commercial banks achieve a higher growth rate in the subsequent decade. Nevertheless, recognising the nascent stage of India's economic development and the inherent dangers in offering too much freedom in too short a time without the necessary controls and systems in place, the Reserve Bank of India (RBI) and the Ministry of Finance ensured that Indian banks continued to adhere to strict guidelines. These regulations were also aimed at maintaining a balanced regional

economic growth, equitable income distribution, financial inclusion and priority sector development. However, this directed lending is a burden on the financial sector, and increases the cost of borrowing for all. I believe the time has come to review this policy.

The Indian banking sector continued to improve its performance despite several hurdles like the global economic slowdown in 2008 and 2009, tightening liquidity, and changes in banking regulations by the RBI. However the intensification of these challenges and the addition of new problems – tightening of monetary policy, and a burgeoning fiscal deficit, the need for increased infrastructure lending, deregulation of interest rates on savings accounts, etc. - have diluted the robust performance of banks in comparison to other sectors.

While the banking sector is struggling to maintain the growth momentum – as of now, Indian banks do not have the ability to match the pace of growth of Indian industry. Some sectors

like Technology and Consumer products are performing well, and have managed to post encouraging numbers. However, while companies with strong cash reserves will continue to increase their revenues for some time to come, in due course they will be required to invest in capital formation and capacity enhancements. And then the 12th Plan projects a Trillion USD to be spent on infrastructure, largely from the private sector. Our banks will need to provide some of this funding. Where is the money going to come from?

In looking at the banking sector in other emerging markets we find that the performance of banks in China and Brazil too have weakened in 2011 and banking stocks have plunged dramatically due to increasing consumer defaults and rising borrowing costs. Only a few years ago, loans to Indian real estate developers, Chinese infrastructure projects and Brazilian consumers fuelled their respective economies. The size of these assets boosted the market value of many banks in these emerging markets, earning them a rank amongst the largest companies in the world. However, worries over high inflation, along with tightening monetary policy and increasing NPAs, have raised serious concerns over the continuance of the growth momentum of banks in these countries.

Notwithstanding the similarities in the growth trajectory, there is one key difference between Chinese and Indian banks: scale. The sheer



size of the Chinese banking sector and the scale of its businesses sets it apart from its Indian counterpart. With more than 250 commercial banks, 196,000 business outlets and nearly 3 million employees (as of 2010), China out-scales India which has just 167 commercial banks 87,768 outlets and around 0.8 million employees.

Even when it comes to asset and market size, Chinese banks overshadow Indian banks. At least 11 Chinese banks figure in the list of the top 100 global banks based on market size, compared to only 3 Indian banks. The scale of difference of these banks is significant too. For instance, Industrial and Commercial Bank of China has a market size of \$230 billion while SBI's market size is just \$27 billion.

There is a perception that Chinese banks may not have the best quality of assets, but the growth in their loan book in the past few years remains unmatched by the Indian banking sector.

According to an Oliver Wyman report, the fact that banking revenues as a percentage of GDP are a mere 4 per cent in both India and China (as against 22 per cent in more developed markets like the UK and Switzerland) points to great growth potential. Increasing wealth is boosting consumption, fuelling growth in both lending and wealth. This acceleration is generally accompanied by an increasing percentage of banking growth over GDP growth. A range



of macroeconomic, demographic and other factors (regulation, legal framework, etc.) also impact the variation in banking growth over GDP growth.

Thus, the report puts countries like India and China in the high potential and medium enablement categories and expects them to experience significant growth. Growth forecasts are also evaluated in the light of capitalising of the banks and the long-term availability of adequate funding. The report forecasts banking revenues in markets like India and China to grow four times in this decade and around three times in the next decade (2020-30). Much of this expected growth is a function of the addition of nearly one billion 'bankable' people across emerging markets, 70 per cent of which would be from China and India.

The deepening of the financial sector and broadening of reach, however, is fraught with risk

without the availability of organised and trusted customer data. Thus, while we need to increase banking and financial product penetration this needs to be done carefully as the institutions (eg credit rating agencies) are still not of sufficient scale to support unbridled growth.

According to Indian banking regulations, a percentage of bank deposits needs to be secured with the RBI in cash to ensure that the banks remain solvent. This amount, currently 4.5 per cent, that is kept in reserve is known as the cash reserve ratio (CRR) and does not generate any interest income for banks. Banks also have to deposit some statutory liquid assets, known as statutory liquid ratio (SLR),<sup>1</sup> in the form of cash, gold, or government bonds on a daily basis before lending any credit to their customers. Currently, this stands at 24 per cent (Reserve Ratios in China and Brazil are around 21 and

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<sup>1</sup> SLR is the ratio of liquid assets to net demand and time liabilities (NDTL).

20 per cent respectively). When combined, Indian banks have to put aside a total of 28.5% of their deposits (amongst the highest in the world), leaving that much less for lending.

Although high SLR & CRR is one method of lending stability to the economy, it also means tighter liquidity as it leaves banks with that much less to lend. Besides, a hike in these rates has a larger impact than a hike in the repo and reverse repo rates. The impact of a rise in repo rates might differ from sector to sector, but a minor hike in CRR hits all sectors.

Another challenge is, cash in the system or currency with public. This expanded by Rs 52,000 crore in the first 3 months of 2012 which is almost equal to a 1% CRR hike. In other words this undoes the CRR cut of 1.25% effected by RBI.

Indian banks are also governed by an RBI mandate to disburse at least 40 per cent of their loans to the priority sector, which includes agriculture, small-scale sector industries and exports. The RBI believes that these sectors are under-served and should be considered a priority as they drive economic growth. However, after lending 40 per cent to this sector and some amount to retail clients, Indian banks are eventually left



with very limited resources to lend to corporate clients.

Besides, the government has been borrowing heavily from the market to meet its financial requirements. It recently increased its borrowing estimation from Rs 4.17 lakh crore (US\$ 83 billion) to Rs 4.7 lakh crore (US\$ 94 billion), a rise of 13 per cent. Such heavy borrowing by the government at higher rates causes 'crowding out', wherein there is an overall increase in interest rates due to the rise in government borrowing. So, while it would not be difficult for the government to borrow more funds at a higher rate, borrowing becomes even more expensive for companies.

The RBI realises the consequences of high CRR and SLR rates, and is committed to bringing these down, thus providing more liquidity to banks, and ensuring that the private sector is not crowded out.

The Indian banking sector is resilient. But in order to maintain this resilience, a few major challenges will need to be addressed. A specific concern that has come

to the fore recently is the increased lending of Indian banks to the infrastructure sector, with increasing risk of non-repayment of loans because of a variety of factors. These loans are long term in value, ideally 10-15 years while the longest tenure of deposits is 5 years with the average around 2 years, creating an asset-liability mismatch. Disproportionate growth in credit to some sectors like retail, NBFCs and real estate leads to concentration in sectors that are showing signs of stress. This increased exposure to specific sectors, mismatches in assets and liabilities and increase in NPAs requires continuous attention.

In addition, it would be challenging for Indian banks to increase their capital to achieve consistent growth and comply with Basel III norms. In a scenario where the cost of borrowing is high and government support is limited due to a high fiscal deficit, banks will have to raise capital through other market-based channels. This is a growing challenge as the government

**The Indian banking sector is resilient. But in order to maintain this resilience, a few major challenges will need to be addressed.**

begins to set aside large amounts of capital to invest in its owned banks in order to retain their shareholding. These banks could easily raise capital from the equity markets as indeed the private sector banks have done. They raise money when markets are strong and hence have comfortable capital adequacy ratios, enabling them to weather the downturns

and to fuel growth.

The time has come to ask—should government be spending tax payers’ money to shore up its shareholding in banks or put this money to better use into social schemes? The budget of 2012 has set aside USD 3.5 bn (Rs 15,888 crore) for the banks over and above the USD 1.7 bn (Rs 7,900 crore) investment in SBI. A Crisil

report estimates that the capital requirement of Indian public sector banks would be in the region of USD 83 bn (Rs 3.75 lakh crore) over the next ten years.

The government should now take a call to hold on to 51% in a limited number of banks and let the others raise money from the capital markets even if their holding drops below 51%.

*This is an extract from the chapter “Roadmap for the Indian Banking Sector” from the newly launched Book - Contemporary Banking in India, Edited by Naina Lal Kidwai*



**Naina Lal Kidwai**  
Sr. Vice President, FICCI &  
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Naina Lal Kidwai, Country Head, India, and Executive Director on the board of HSBC Asia-Pacific, heads the Indian operations of the HSBC group.

She is actively engaged in trade and industry issues, and is Senior Vice President of the Federation of Indian Chambers of Commerce and Industry (2012); member of the Government of India’s Industry Task Force, the Indo-German Consultative Group and the Working Group on Banking, Financial Sector Legislative Reforms Commission; and on the governing boards of the National Council of Applied Economic Research and the National Institute of Bank Management. She is also a Global Advisor for Harvard Business School and the Chair of its India Advisory Board, Chairman of the City of London’s Advisory Council for India and Non-Executive Director on the Board of Nestle.

An MBA from Harvard Business School, she is the recipient of many awards and honours and makes a regular appearance on listings of the worlds powerful since 2002. She received the Padma Shri, for her contribution to Trade & Industry, from the Government of India in 2007.



## The Rise of BRIC in Global Finance

*Dr. V Shunmugam, Chief Economist, MCX Stock Exchange*

**B**RIC coined by Jim O’Neill in a 2001 paper entitled “Building Better Global Economic BRIC’s made the entire financial world to watch these nations as the growth drivers in the global economy. The acronym intended to signify the foundations of a construction stood for its literary meaning through the shift in global economic power away from the developed G7 economies towards the developing world. It is estimated by analysts that BRIC economies will overtake G7 economies by 2027 in terms of their collective contribution to the global economy.

### **BRIC and Global Economy**

The last decade saw the BRIC

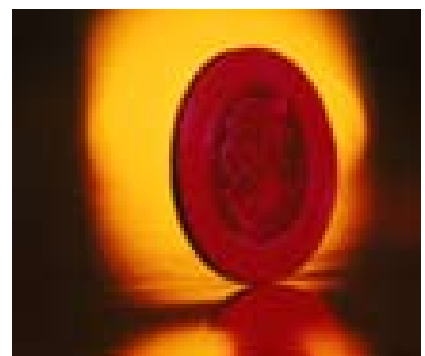
emerging as a force to reckon with in the global economic landscape. Over the past 10 years they have contributed substantially to the growth and have grown from being one-sixth of the world economy during 1990 to almost a quarter (in PPP terms) during 2010.

### **BRIC as % of Global GDP**

In the past few decades, BRIC nations have garnered a key role in the global economy as producers of goods and services, receivers of capital, and as potential consumer markets for most firms and investors from developed nations.

Table 1, states that BRIC economies have been identified as the fastest growing medium sized economies and have emerged as

***BRIC nations have garnered a key role in the global economy as producers of goods and services, receivers of capital, and as potential consumer markets for most firms and investors from developed nations.***



**Table 1: Overview BRIC: 2010**

Country	GDP in PPP		GDP in PPP		Share in World GDP		Per Capita	
	(in US \$ billion)		(in US \$ billion)		(in per cent)		GDP (US \$)	
	Rank in World	2011	1990	2010	1990	2010	1990	2010
Brazil	8	2,324	508	2,090	3.3	2.9	3,464	10,816
Russia	7	2,414	-	1,465	-	3	-	10,437
India	4	4,515	326	1,538	3.1	5.4	378	1,265
China	3	11,440	390	5,878	3.9	13.6	341	4,382

Source: IMF Database, - Not available, CIA Fact book

engines of the global recovery process, which underscores the increasing significance of BRIC economies among its global counterparts.

Even within the recently convened G-20 forum 2011, BRIC nations are continuing to play an increasingly visible role in shaping macroeconomic policy and regulations for the key financial institutions and markets after the recent financial crisis. Currently BRIC nations constitute for over 40 per cent of the world's population and account for nearly 25 per cent of

total global GDP (PPP). When compared based on GDP in PPP terms, BRIC economies figure among the top ten, with China, India, Russia and Brazil being placed as the 3rd, 4th, 7th and 8th largest economies respectively. In terms of their contribution to growth of PPP-adjusted global GDP, BRIC economies accounted for 55 percent during 2000-08, and are expected to further increase in the years to come. According to an estimate by Goldman Sachs, the BRIC countries are expected to represent 47% of global GDP by 2050.

### BRIC vs. Global Economy - The Growth Perspective

The collective strength of the BRIC economies is of increasing significance to the strength of the global economy. BRICs are expanding rapidly, transforming, undergoing structural transformation and driving the global economy.

Table 2, indicates the growth rate of GDP of the BRIC economies, which is robust when compared with the advanced and the developed economies.

According to the Grant Thornton International Business Report-

**Table 2: Growth Rate of GDP in percent**

Country	1991-2001	2002	2005	2006	2007	2008	2009	2010
<b>Bric</b>								
Brazil	2.6	2.7	3.2	4	6.1	5.2	-0.6	7.5P
Russia	-	4.7	6.4	8.2	8.5	5.2	-7.8	4.0P
India	5.7	4.6	9.2	9.8	9.4	7.3	5.7	10.4
China	10.3	9.1	10.4	11.6	13	9.6	8.7	10.3
Advanced Economics	2.8	1.7	2.7	3	2.8	0.5	-3.2	3
Euro Area	2.1	0.9	1.7	3	2.8	0.6	-4.1	1.7
USA	3.5	1.8	3.1	2.7	2.1	0.4	-2.4	2.8
World	3.2	2.9	4.5	5.1	5.2	3.0	-0.6	5

Source: World Economic Outlook, IMF (2011), P: Projection, -: Not Available



2012, the BRIC economies are forecast to account for 37% of global growth during 2011-16. Meanwhile, the proportion of global output produced by the traditional economic powerhouses belonging to the G7 economies will fall from 48% to 44% over the same period. The inherent strength of the BRIC emanates from their being strong domestic demand-based economies and the significant outward linkages both in terms of trade and investment with a diversified basket of goods and services. The sustained economic reforms and improved macroeconomic fundamentals along with a buoyant macroeconomic environment contributed to the improved growth performance of the BRIC in the current decade.

### Trade Flows - on Rise

The share of the BRIC in global trade continued to grow at a rapid pace during the last two decades. Particularly BRIC share in world exports increased substantially over the past decade thanks to the efforts of the BRIC economies to leverage their resource and demographic strengths.

BRIC's share of trade in the global trade has increased from about 4% in

1990 to 16% in the year 2010. Meanwhile, total imports and exports of the BRIC countries in monetary terms also showed a rising trend.

The composition of BRIC exports changed drastically over the past two decades due to structural changes across the sectors of these economies during the period. Though the BRIC are still known for exports of natural resources, these economies moved away from being exporters of primary products to exporters of manufactured/ value added products and services. As per the Table 3, the share of BRIC economies in the world exports have undergone a drastic change from 3.9% to 16.3%.

Likewise, their export destinations have undergone dramatic diversification in line with their increasing drive towards globalization and liberalization which, in turn, helped BRIC economies consolidate their share in global trade besides helping their external sector put up a robust performance notwithstanding the effect of ongoing financial crisis.

The import demand from these fast growing BRIC economies is acting as a catalyst to the global growth process. Together as BRIC nations

the imports have gone up to 14.8% in 2010 from a minor 3.3% in 1990 as in Table 4. The diversification in the composition of exports from primary to manufactured products, mostly in the form of value additions, requires large imports.

The major chunk of BRIC economies' import basket consists of capital goods, indicating their drive towards sustaining large-scale industrialization in their respective economies as also reflected in the changed composition of their exports, The BRIC' imports of services have also grown, reflecting the increasingly broad-based nature of the growth of the external sector achieved over the past decades. As in the case of imports, large-scale industrialization and the increased emphasis on exports encouraged a high demand for services. Besides, the improved living standards of the middle class of these economies have driven the import demand of services to a greater extent.

### A Well-Developed Banking Sector- Enhancing the Capital Growth

Banking remains the key for unleashing the potential of

**Table 3: BRIC Share in World Exports in percent**

Country	1995	2000	2005	2008	2009	2010
<b>Bric</b>	6.5	7.5	12.2	14.8	15.1	16.3
<b>Brazil</b>	0.9	0.9	1.1	1.2	1.2	1.3
<b>Russia</b>	1.6	1.6	2.3	2.9	2.4	2.6
<b>India</b>	0.6	0.7	0.9	1.2	1.3	1.4
<b>China</b>	2.9	3.9	7.3	8.9	9.6	10.4

Source: UNCTAD, -: Not available

**Table 4: BRIC Share in World Imports (per cent of GDP)**

Country	1990	1995	2000	2005	2008	2009	2010
<b>Bric</b>	3.3	6.1	6.2	10.0	12.5	13.3	14.8
<b>Brazil</b>	0.6	1.0	0.9	0.7	1.1	1.1	1.3
<b>Russia</b>	-	1.3	0.7	1.3	2.0	1.7	1.8
<b>India</b>	0.7	0.7	0.8	1.3	2.0	2.0	2.1
<b>China</b>	1.5	2.5	3.4	6.1	6.9	8.0	9.1

Source: UNCTAD, -: Not available

economic growth by being an institution that channelizes savings of the economic stakeholders and puts it into its productive use. History of banking in the developed markets indicate that banking sector played a crucial role of intermediating those who save capital and those who need it thereby contributing to the overall growth of the economy.

Capital-to-asset (Table 5) ratio as an indicator of the banking sector performance in BRIC economies witnessed a gradual fall over the period, indicating gradual expansion of banking activities.

Capital-to-risk weighted assets as an indicator (Table 5) of the soundness of banks has increased considerably in BRIC economies during the last two decades. Despite the recent financial crisis, there has not been any significant

fall in the ratio, indicating that the banking sectors in these countries are sound and well capitalized.

A similar pattern is reflected in the NPAs of banks in the BRIC, which have been gradually declining over the period as a percentage of total loans. The profitability of banks in terms of both returns on assets and return on equity has also been rising gradually in most BRIC economies during the last two decades.

Even though the BRIC nations have pursued different paths of growth and with varied institutional strengths, global analysts are optimistic about their emergence due to their innate comparative advantages. The growing role of the BRIC is not only confirmed by the rapid recovery of these economies from the global financial crisis, but also by the role that

BRIC economies play today at the highest levels of decision making in various global bodies including the G-20 financial stability forum.

### Investment Flows & Reserves

The growth rates and the pace of deal making in the BRIC nations continues to remain strong, despite the Investment flows to the world's four largest emerging economies -- Brazil, Russia, India and China -- slowed slightly in the first half of 2010, as per the data.

Between 2000 and 2006, net FDI stock in the four BRIC countries grew from \$136.9bn (8% of global FDI stock) to \$1.53tn (13%). This represents a compound annual growth rate of 41.3%, against a CAGR of 24.1% in the US (the single biggest recipient of FDI)

**Table 5: Banking Sector in BRIC**

Country	Bank Capital to Assets			Regulatory Capital to Risk Weighted Assets		
	1999	2005	2009	1999	2005	2009
<b>Brazil</b>	-	10.4	11.2	-	17.9	18.9
<b>Russia</b>	14.3	12.8	15.7	18.1	15	20.9
<b>India</b>	5.9	9.8	10.3	11.2	12.8	13.2
<b>China</b>	5.2	4.4	3.6	5.6	2.5	11.4

Source: National Authorities: IMF estimates, -: Not available

**Table 6: Share of Global FDI inflows (per cent)**

Country	1995	2000	2005	2008	2009	2010
<b>Bric</b>	13.8	5.8	11.7	16	16.7	17.8
<b>Brazil</b>	1.3	2.3	1.5	2.6	2.2	3.9
<b>Russia</b>	0.6	0.2	1.3	4.3	3.1	3.3
<b>India</b>	0.6	0.3	0.8	2.4	3	2
<b>China</b>	11	2.9	7.4	6.2	8	8.5

Source: UNCTAD

and 32.7% in the EU (the largest regional destination).

There has been a marked increase in the magnitude of net private capital flows into the BRIC economies during the same period, as indicated in Table 6. Global as well as domestic factors contributed to an overall increase in capital inflows. Global factors include excess liquidity and a low interest rate regime in various developed economies along with an improvement in the risk perception towards EMEs and the investor urge for higher yields. This encouraged the shift of the

direction of global capital flows in favour of EMEs, complicating macroeconomic management in some cases.

All BRIC economies witnessed significant accumulation of international reserves through the past decade (Table 7A), barring some moderation during periods of the global financial crisis.

The reserve accumulation of the BRIC can be viewed as a measure of insurance against any future crises and its impact on their external economic performance.

On the overall, BRIC's share in global international reserves

increased remarkably during the current decade, as in Table 7B.

## Role of Financial Sector in BRIC

### Capital Markets in BRIC

Existence of a vibrant financial market helps economic stakeholders of a nation to raise funds and manage their financial risks in a cost-effective and efficient manner. Additionally, well entrenched financial markets also connect domestic savers and foreign investors with those domestic businesses who need risk or debt capital.

**Table 7A: BRIC and Foreign Exchange Reserves**

US \$ bn	1990	1995	2000	2005	2008	2009	2010
<b>Bric</b>	41.2	162.5	271	1203.6	2834.7	3374.8	3914.6
<b>Brazil</b>	7.7	49.9	32.5	53.3	192.9	237.4	287.1
<b>Russia</b>	0	14.9	24.8	176.5	412.7	417.8	445
<b>India</b>	2.1	18.6	38.4	132.5	248	266.2	276.2
<b>China</b>	30.2	76	168.9	822.5	1950.3	2417.9	2867.9

**Table 7B: Share in Total Global Reserves**

<b>Bric</b>	4.2	10.6	13.3	27.1	37.7	39	40.1
<b>Brazil</b>	0.8	3.3	1.6	1.2	2.6	2.7	2.9
<b>Russia</b>	0	1	1.2	4	5.5	4.8	4.6
<b>India</b>	0.2	1.2	1.9	3	3.3	3.1	2.8
<b>China</b>	3.1	5	8.3	18.5	25.9	28	29.4

Source: UNCTAD

**Table 8: Stock Market Performance of BRIC Countries**

Country	Index			Movement (per cent change)			PE ratio			
	1999	2005	2009	1999	2005	2009	1999	2005	2009	2010
<b>Brazil</b>	889.50	1569.40	3624.50	61.60	50.00	121.30	18.60	12.39	17.00	13.80
<b>Russia</b>	177.71	1125.00	1444.10	201.60	83.30	128.60	-	8.30	11.1	8.3
<b>India</b>	209.50	3829.00	468.50	89.10	40.20	100.50	22.80	20.17	21.8	22.4
<b>China</b>	33.50	29.30	64.80	10.20	15.60	58.80	-	15.78	15.6	14.6

Source: Bloomberg and Morgan Stanley Capital International, Russia RTS Stock Exchange and share included in RTS index calculation base, -: Not Available

As per the World Federation of Exchanges, there are plenty of opportunities yet to be explored in terms of basket of products to be offered in respective financial markets.

During the period 1999–2010, capital markets in the BRIC experienced fluctuations, which also varied within the group. Table 8 indicates the stock market performance of the BRIC nations through a period of 1999 to 2009. A significant rise in equity indices was observed between the years 2000 and 2008. Except for the two years mentioned, equity indices rose in all the BRIC economies. During this period, the price-earnings ratio (PE) as an indicator of capital markets in the BRIC had been relatively stable.

The strength of stock markets

measured in terms of market capitalization to GDP in table 9 of BRIC economies progressively deepened over the years. The ratio which was as low as 3.6 per cent in 1990 for Brazil, reached a high of 74 per cent in 2010 partially portraying the growth achieved by the Brazilian economy during the same period.

The corresponding ratios during the same period in the case of India were 12.2 per cent and 93.4 per cent, respectively. China and Russia, both of which started off with a relatively shallower base, rapidly caught up. In China, the market capitalization-to-GDP ratio in 1995 was 5.8 per cent, which jumped to 81 per cent in 2010. The corresponding ratios with respect to Russia were 4.0 per cent and 67.9 per cent, respectively.

Combined external financing of capital markets in the BRIC from bonds, equities and loans in absolute terms during the period 1999–2010 increased significantly. The integration of the BRIC financial markets with the global financial markets and global investors thereof, as indicated in Table 10,

### Performance of BRIC capital markets during Financial Crises.

Level of development of capital markets defines the financial soundness of any economy. Depth in the capital markets can be seen with the variety in the products offered and the number of participants. Availability of products and the openness of the markets in BRIC indicate that the financial markets have a lot much potential which is yet to be tapped.

Particularly, capital markets provide for the buying and selling of long term debt or equity backed securities. Capital markets channel the wealth of savers to those who can put it to long term productive use, such as firms in the private and public sector aiming at long term investments

**Table 9: Market Capitalisation of Listed Companies in percent**

Country	2006	2010
<b>Brazil</b>	65.3	74
<b>Russia</b>	106.6	67.9
<b>India</b>	89.5	93.4
<b>China</b>	91.3	81

Source: S&P's Emerging Stock Markets fact book, Supplemental S&P data, World Bank and OECD GDP estimates.

**Table 10: Emerging Market External Financing :  
Total Bonds, Equities and Loans**

(in US \$ bn)

Country	2000	2002	2004	2006	2007	2008	2009	2010
Brazil	21.45	11.12	15.83	31.22	73.22	30.84	39.60	67.70
Russia	8.31	8.54	22.53	59.17	84.54	61.23	53.94	45.39
India	3.43	1.36	13.06	29.53	60.51	37.56	58.32	115.93
China	9.23	4.26	22.85	50.04	75.68	66.83	66.83	79.88

Source: Data provided by the Bond, Equity and Loan Database of the IMF sourced from Capital Data,

-: Not Available

Equity markets in BRIC economies performed well during the current crisis. A comparative look at the performance of various equity market indices of BRIC markets clearly indicates that businesses have recovered strongly from the onslaught of the financial crisis.

The growth of businesses and their maturity is better explained by the mergers and acquisition of the private firms. Though the number of M&As in the BRIC economies increased over a period in time witnessed a steady increase, it declined with the onslaught of the recent financial crisis. However, the number of M&As in BRIC economies steadily increased during 2010.

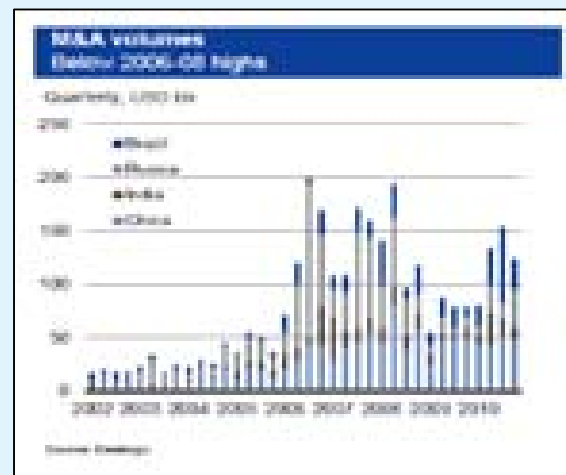
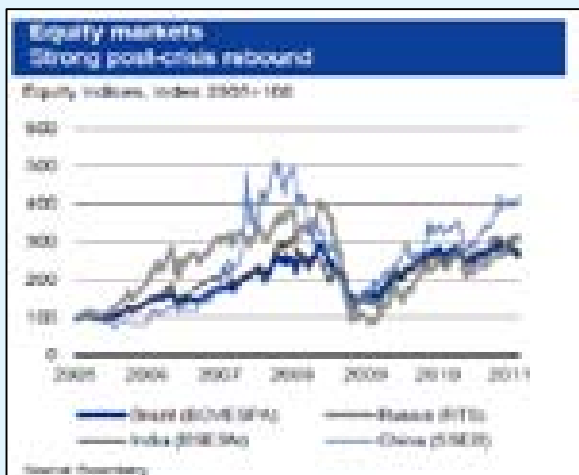
The primary market serves as the anchor of risk capital raising activities in an economy contributing to mainstreaming of businesses to publically traded market places. A look at the number of such primary issues that happened in the market indicates that the primary markets have rebounded back from a sharp decline that occurred during 2008 post the recent financial crisis that eroded the risk capital base globally.

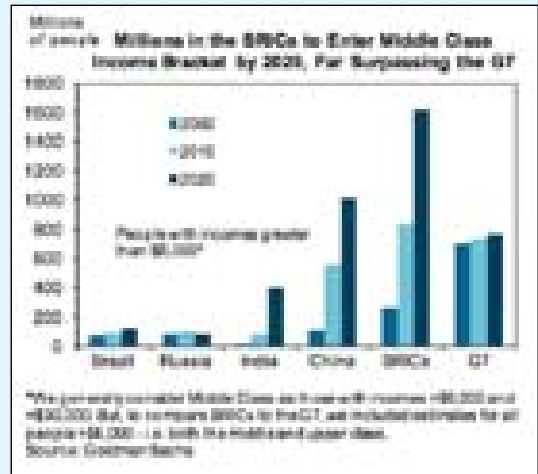
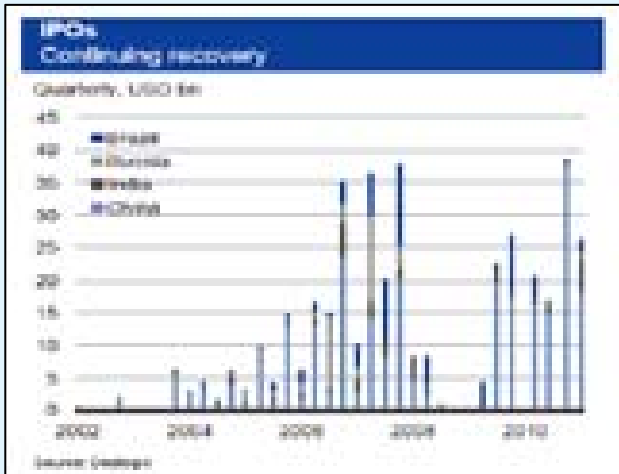
### Future of BRIC Economies and Role of Finance

Combined GDP in the BRICs will rise to more than \$14 trillion

this year compared with \$2.8 trillion in 2002, according to the IMF. According to IMF, BRIC stock markets may double by 2020 as their share of world gross domestic product increases to about 27%. The strength of the BRIC nations lies in its strong demographic factors. With increasing population of working age, higher literacy rates, growing industrialization, corporatization, diverse skill sets, better social welfare, health etc., BRIC economy leveraging its financial sector and capital markets. It also forms one of the promising markets for the World considering the high consumer profiles.

The rapid economic growth and demographics of BRIC's are





expected to give rise to a large middle class whose consumption would help drive the BRICs' economic development and expansion of the global economy.

In the years to come, it is expected that the BRIC would transform into large global suppliers of manufactured goods and services as well as major suppliers and consumers of commodities. Thus, the BRIC have the potential to evolve into a powerful economic bloc. In recent years, the BRIC nations have been taking advantage of their abundant population and resources and, on the whole, achieving steady economic growth.

BRIC countries hence will need

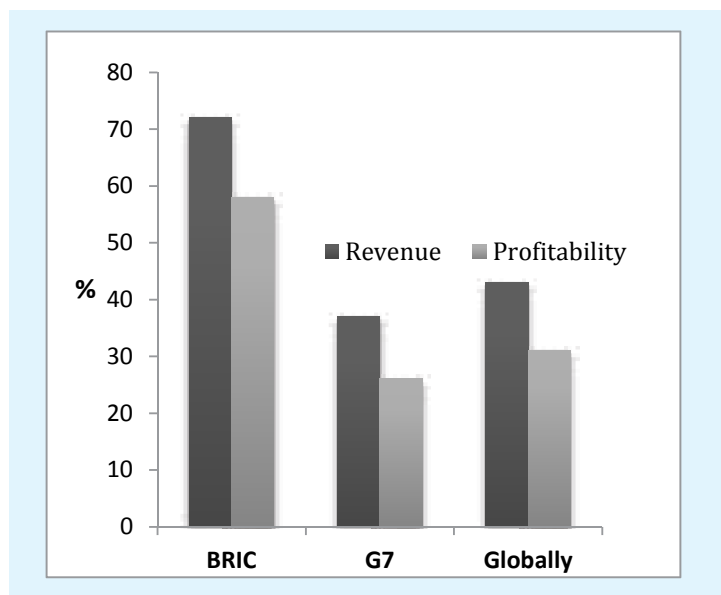
to work together closely to evolve strategies for the future. This could include cooperation in a wide variety of issues like energy, food security and access to natural resources, climate change, global governance, and international trade policies.

### Emerging Role of Finance in BRIC

If trends in FDI flows are an indicator, the growth in the BRIC countries would likely accelerate over the next couple of decades.

As per the Grant Thornton IBR report published in 2012 net 72% of BRIC businesses leaders expect revenues to raise, compared with 37% in the G7 and 43% globally. Similarly, 58% of those in the BRICs expect to see their profits rise, well above the G7 i.e. 26% and global average of 31%. The strong business confidence signifies that the BRIC economies are likely to remain vibrant and would attract finance from across the globe apart from their own domestic investors. Sustenance of the vibrancy in

**The evolving financial market and the developing capital market both shall act as boosting factors for the BRIC economies development**



the BRIC economy lies in how it unlocks the potential of its capital markets and the leverages its financial sector. Given the potential growth in capital markets enabling growth of their private sector BRIC could emerge as significant growth driver in the current crisis impacted global economy.

The financial sector developments in these economies shall enhance trade and capital flows along with increased technology transfers and mobility of labour.

The collective strength of the BRIC economies (Brazil, Russia, India and China) is of ever increasing importance to the strength of the global economy. Whilst mature economies across the globe grapple with towering budget deficits, anemic growth

and rising unemployment, the BRICs are expanding rapidly, lifting people out of poverty and driving the global economy.

The manner in which leaders in the troubled euro zone recently pleaded with these markets for funds to help alleviate the sovereign debt crisis marks yet another definitive step in the transition of economic power from 'west' to 'east'.

The evolving financial market and the developing capital market both shall act as boosting factors for the BRIC economies development.




**V Shunmugam**  
Chief Economist,  
MCX Stock Exchange

Dr. Shunmugam V has a rich global experience in intensive policy matters, developmental economics & research and working in close proximity with policymakers and market regulators. A thought leader and trained macro-economist with a wealth of network across ranks and files in Government, regulators, business, academics, he has expertise in dealing with multiple regulators, markets, products and strategic communication with various industry stakeholders.

In his role as Chief Economist at MCX-SX and at MCX prior to that, he has structured pragmatic policy recommendations based on the foresight about its linkages with various aspects of the economy and its impact on economic stakeholders, investors, producers, savers, intermediaries and institutions, leading to balanced and sustainable growth of the economy. He plays a key role in interfacing with regulators, product R&D, risk mapping and product design. He had earlier worked with the US Government where he played a robust role of connecting India and the US through trade relations, commodity market dynamics, trade & policy matters and facilitating workshops, conferences, and official missions.

Dr. Shunmugam is a Ph.D. in Agricultural Economics from Indian Agricultural Research Institute, New Delhi (1997) and M.Sc. in Agricultural Economics (Gold Medalist, 1993).



## Role of India in Asia's Financial Growth

*Mr. Pratip Chaudhuri, Chairman, State Bank of India*

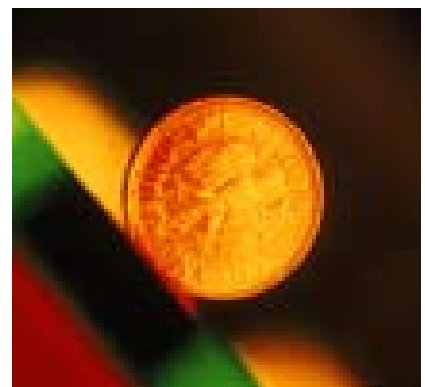
### Backdrop

India has adopted a new economic paradigm involving integration with the world economy in a market-friendly and consistent manner, beginning with rebalancing of the state-market mix in 1991. This was because of the realization that the relatively inward-looking growth model adopted since independence in 1947 had become inappropriate to deal with globalization and associated technical changes. The proximate cause of the adoption was however the severe macro-economic crisis,

particularly in the balance of payments.

The 1991 crisis was, however, turned into an opportunity for restructuring, deregulating and liberalizing the economy. At around the same time India initiated a 'Look East Policy (LEP)' to revitalize the civilizational and economic links with the rest of Asia, particularly with ASEAN, China, Japan and South Korea. During this period India also strengthened its relations with Russia, and has been taking steps to deepen its engagement with the Middle East, Africa, and Latin America.

*Asia's rapid growth implies that by 2050 it could converge with average global living standards*





The period since India adopted the new economic paradigm and the LEP has witnessed substantial transformation of its global relations, including with the rest of Asia. This was driven by the recognition of India's increasing capacities to address its developmental challenges, and the potential to play a larger role in the global economy, which would provide substantial commercial opportunities. Creditably, India has been able to sustain high levels of growth without any crisis. In fact, one can confidently say that India has no parallel in managing relatively peaceful and democratic transfer of political and economic power among different social classes.

### Asia in 2050

Asia's rapid growth implies that by 2050 it could converge with average global living standards. Asia would no longer be a "poor" region, but an average region, in income terms, with a range of advanced and middle income economies.

Asia accounts around 60% of the world population, 30% of the world area and 30% of the world GDP (in PPP terms) as of 2011. Asia registered an annual GDP growth of 5.9% in 2011 and is projected to grow at 6.0% in 2012 and 6.5% in 2013, which is impressive considering growth in the world economy was 3.9% in 2011 and projected to grow at 3.5% in 2012 and 3.9% in 2013.



In this scenario, Asia's GDP would increase from around \$18 trillion in 2011 to \$148 trillion in 2050, or half of global GDP. With a per capita GDP of \$38,600 (PPP), Asia in 2050 would have incomes similar to Europe today.

### Asia and Global Growth (%)

	2011	2012 P	2013 P
<b>Asia</b>	<b>5.9</b>	<b>6.0</b>	<b>6.5</b>
<b>World GDP</b>	<b>3.9</b>	<b>3.5</b>	<b>3.9</b>
<b>Industrial Asia</b>	<b>-0.2</b>	<b>2.2</b>	<b>2.0</b>
Australia	2.0	3.0	3.5
Japan	-0.7	2.0	1.7
New Zealand	1.4	2.3	3.2
<b>East Asia</b>	<b>8.2</b>	<b>7.3</b>	<b>8.0</b>
China	9.2	8.0	8.5
Hong Kong	5.0	2.6	4.2
Korea	3.6	3.5	4.0
Taiwan	4.0	3.0	4.7
<b>South Asia</b>	<b>7.1</b>	<b>6.8</b>	<b>7.2</b>
Bangladesh	6.1	5.9	6.4
India	7.1	6.1	6.5
Sri Lanka	8.2	7.5	7.0
<b>ASEAN</b>	<b>4.5</b>	<b>5.4</b>	<b>6.1</b>

Source: IMF WEO April and July 2012; P. Projection

## Merchandise Trade by Region (Annual%chg in volume)

	Exports			Imports		
	2009	2010	2011	2009	2010	2011
World	-12.0	13.8	5.0	-12.9	13.7	4.9
Asia	-11.4	22.7	6.6	-7.7	18.2	6.4
India	-6.0	22.0	16.1	3.6	22.7	6.6
China	-10.5	28.4	9.3	2.9	22.1	9.7
Japan	-24.9	27.5	-0.5	-12.2	10.1	1.9

Source: WTO

### India as a major growth driver in Asia's growth

Asia's rise will be led by China, India, Indonesia, Japan, Republic of Korea, Malaysia, and Thailand. In 2011 these seven economies had a combined total population of 3.1 billion (78% of Asia) and a GDP of \$14.2 trillion (87% of Asia). By 2050 their share in Asia's population is expected to fall to 73%, while their share in GDP would rise to 90%. These seven economies alone will account for 45% of global GDP. Their average per capita income of \$45,800 (PPP) would be 25% higher than the global average of \$36,600.

In a report by PwC, China will overtake the US to become the world's largest economy by 2020, which in turn will be overtaken

by India in 2050, due to its demographic dividend, robust growth rate and better investment climate.

### India's Trade Linkages with Asia

#### Linkages through Merchandise Trade

The volume of world merchandise trade rose 5.0% in 2011, accompanied by global GDP growth of 3.9%. This marked a significant slowdown from 2010, when trade advanced 13.8% and output expanded by 5.3%.

The share of Asia's exports and imports in the world's total exports and imports in terms of volume stood at 31%.

India had the fastest export

growth among major traders in 2011, with shipments rising 16.1%, followed by China at 9.3%. The share of India and China's exports in global exports are 1.2% and 10.7% respectively. Reflecting their large trade linkages with Asia, China's share in Asia's exports was as high as 34.3% in 2011, while India's share was 5.4%.

#### Linkages through Commercial Services Trade

In tandem with a sharply expanding services sector, global commercial services exports grew by 11% in 2011 to US\$ 4.1 trillion.

In case of Asia, commercial services exports grew by 12% to \$ 1.1 trillion. The share of Asia in total commercial services exports

## Commercial Services Trade by Region (Annual% chg)

	Exports			Imports		
	2009	2010	2011	2009	2010	2011
World	-11.0	10.0	11.0	-11.0	10.0	10.0
Asia	-11.0	23.0	12.0	-10.0	21.0	14.0
India	-13.0	33.0	20.0	-9.0	45.0	12.0
China	-12.0	32.0	7.0	0.0	22.0	23.0
Japan	-14.0	10.0	3.0	-12.0	6.0	6.0

Source: WTO

stood at 26.4%, showing that a quarter of commercial services exports are accounted for by Asia.

The growth in commercial services exports in Asia (11% in 2011), was mainly driven by India, where commercial services exports grew by 20%. India contributes 13% of Asia’s commercial services exports, next only to China (17%). With consistent 8.0% plus growth in India’s services, it is estimated that India will surpass China by 2020.



**India’s Trade with Asian Trade Blocks**

India established a “Look East” policy in the early 1990s following its adoption of economic reforms and the end of the Cold War, but this policy gained steam only in last decade. India’s role in East Asia, NE Asia and South Asia is becoming more pronounced as it strengthens relations and trade links with China, seeks closer economic and political ties with SouthAsian nations, and places special emphasis on building strategic ties with Japan.

In the last decade, India trade (exports + imports) with East Asian countries rose eight-fold

(from \$1.6 bn in FY’01 to \$13.5 bn in FY’11) although imports grew faster than exports.

India’s trade ties with North-East Asia are the most important and robust. With trade of merely \$ 11.9 bn in FY’01 it increased to \$ 113.3 bn, almost ten times. India’s trade with the ASEAN countries increased from \$ 7.0 bn in FY’01 to \$55.6 bn in FY’11, an 8 fold increase.

**India’s Financial Linkages with Asia**

**Linkages through Banking/ FIs:** As of end-Mar’11, there are 36 foreign banks from 24 countries operating in India. These banks had 309 branches in FY’11, against

302 branches in FY’10 and 289 branches in FY’09. Most of the foreign bank branches in India are those of Asian Banks, which had a share of 28.5% in 2010-11.

Indian bank branches operating in Asia were 81 in FY’11, out of total 153 branches operating world-wide, forming 52.9% of the total global operations.

In recent years, it has been seen that the demand for bonds issued by Indian banks seems to be coming from Asian countries. For example, Asian investors lapped up more than 75% of Union Bank’s bonds, SBI placed over 45% of its bond issuance with Asian investors, while ICICI Bank placed

**India Trade with Asia (in \$ bn)**

	2000-01		2009-10		2010-11	
	Exports	Imports	Exports	Imports	Exports	Imports
ASEAN	2.9 (6.5%)	4.1 (8.2%)	18.1 (10.1%)	25.8 (8.9%)	25.6 (10.2%)	30.6 (8.2%)
East Asia	0.5 (1.1%)	1.1 (2.3%)	1.7 (0.9%)	13.0 (4.5%)	1.9 (0.8%)	11.6 (3.1%)
NE Asia	6.3 (14.1%)	5.6 (11.1%)	28.9 (16.2%)	53.5 (18.5%)	37.2 (14.8%)	76.1 (20.6%)
South Asia	1.9 (4.4%)	0.5 (0.9%)	8.4 (4.7%)	1.6 (0.5%)	11.7 (4.6%)	2.1 (0.6%)
India	44.6 (100%)	50.5 (100%)	178.7 (100%)	288.3 (100%)	251.1 (100%)	369.7 (100%)

Source: Department of Commerce;  
 Figures in parentheses represent share in exports and imports

## Foreign Banks' Operations in India and Overseas Operations of Indian Banks

	Foreign Banks' Branches Operating in India			Indian Banks' Branches Operating Abroad		
	2008- 09	2009-10	2010-11	2008- 09	2009-10	2010-11
Asia	81	85	88	67	76	81
Hong Kong	47	50	50	15	17	18
Singapore	10	10	12	13	15	16
Europe	66	67	69	6	6	6
UK	95	101	103	24	25	28
US	47	49	49	8	8	8
Others	0	0	0	29	29	30
<b>Total</b>	<b>289</b>	<b>302</b>	<b>309</b>	<b>134</b>	<b>144</b>	<b>153</b>
Asia's Share	28.0%	28.1%	28.5%	50.0%	52.8%	52.9%

Source: RBI's Report on Trends and Progress 2010-11

46%. All the recent transactions saw major investments from Asia followed by US-based investors. Close to half the investment in the last few issuances now come from within Asia.

**Linkages through Capital Flows:** Capital flows have also fueled globalization around the world, which is facilitated by liberalization of the capital account in the emerging economies. Capital inflows are aided by both "push" and "pull" factors. The push factors have included low interest rates globally, slow growth and lack of investment opportunities, and deregulation that has allowed greater global risk diversification in industrial countries. The pull factors have included robust economic performance and improved investment climate in emerging Asian economies, resulting from a series of trade, financial sector and legal reforms and other economic liberalization measures.

Capital flows to Asia have rebounded so far in 2012, following the sharp retrenchment in portfolio equity flows late last year. From August 2011 onwards, global risk aversion spiked in response to escalating turmoil in the euro area, and investors fled to safe havens globally. In Emerging Asia, this caused a large withdrawal of foreign equity investments, plunges in regional stock markets, sharp currency depreciations, and a shortage of U.S. dollar funding. Stresses in local banking systems also emerged, with credit default swap spreads on some banks in Australia, China, Hong Kong and Japan increasing to record or near-record highs.

India is one of the highest portfolio-investment receiving countries in Asia and obtained FII inflows of \$18.8 bn in 2012 so far (till 21st Sep'12); other Asian peers include Indonesia (\$1 bn), Philippines (\$2.18 bn), South Korea (\$12.81 bn), Taiwan (\$1.54 bn),

Thailand (\$2.15 bn), and Viet Nam (\$18 mn). Incidentally, according to World Bank data, India is the top recipient of remittances in the world; in 2011, India received \$64 bn as remittances followed by China (\$63 bn), Mexico (\$24 bn), and the Philippines (\$23 bn).

The challenge that India and Asian economies face over the medium term is to ensure that more of capital flows come in the form of FDI and goes into sectors such as infrastructure and manufacture. It must also go into other sectors like agriculture, healthcare, education, etc. that are important for building sustainable growth that India and other Asian economies are targeting over the medium term.

### Future of Asia's Growth

**Technological change and productivity:** Asian technology has reached or is close to the global cutting edge in many areas of electronics, computers, information technology services,

communications, pharmaceuticals and biotech and promises technology's spread to other Asian countries. After all, the closer to the source of the innovation, the faster its adoption.

**Demographics and labor force:** In the last two decades, the world has benefitted from a demographic dividend. The number of people aged 20-64, traditionally taken as the labor force, has been growing. In fact, about 560 million people were added to the global labor force in the 1990s, and almost 640 million more people between 2000 and 2010. That dividend is now slowing, and will lose steam by 2035. Asia's labor force has been growing at 2.0% a year over the last two decades. In the next two, that will be halved to 0.9% a year. In the two following decades (2031- 2050), growth of Asian labor force will likely become flat.

However, the demographics of Asia's giants, China and India are very different. China's labor force is still growing, albeit more slowly than before, and will also probably peak around 2020. India, by contrast, still has a young population, and its labor force will continue to grow before reaching nearly one billion workers by 2050. India will then have 25% more workers than China. So, the demographic dividend of India will induce higher economic growth than China in the coming years.

**Capital deepening:** Notwithstanding the huge investment rates of countries like China and India in recent years, most of the world's capital stock, about 70%, is in advanced economies. Small

European economies, like Switzerland, Norway, Denmark and Finland, have the highest capital stock per worker in the world. Japan also has a capital stock per worker above the developed country average. Asia's challenge will be to augment its capital stock and at the same time, step up its productivity.

**Climate change:** Climate change is arguably the single most important issue which has long-term implications. It could affect each and every human being on our planet, irrespective of his or her country, income, or race. With over half of the world's population residing in Asia and the Pacific, Asians have more at stake in the well-being of the planet than any other people.

**From growth to social well-being:** So far, Asian policy makers have emphasized social stability as the foundation of economic growth. Many have thought of social stability and economic growth as a virtuous cycle. One underpins the other. That has certainly been Asia's historical experience, but it may need reconsideration as Asian societies become more affluent in

**Asia's growth and larger footprint in the global economy will bring new challenges, responsibilities and opportunities**

future and inequalities become wider.

### Conclusion

Asia's growth and larger footprint in the global economy will bring new challenges, responsibilities and opportunities. The region will need to take greater ownership of the global good, including an open trading system, stable financial system, climate change, and peace and security. It will need to play a bigger role in global rule-making and be an active participant in the constructive formulation of the rules. While framing its domestic and regional policy agenda, the region as a whole, but also the larger economies like China, India, Indonesia, Japan and Korea, will need to take into account the wider regional and



global implications. How the region manages its rapidly rising role in global governance in a non-assertive and constructive way and emerges as a responsible global leader, will be closely watched by the rest of the world.



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**Pratip Chaudhuri**  
Chairman  
State Bank of India

Mr. Pratip Chaudhuri is the Chairman of State Bank of India (SBI), a 205 year old organization and India's largest Commercial Bank. He assumed the Chairmanship of State Bank of India on 7th April 2011. In this role, he is not only the Chief Executive of India's largest commercial bank, but also the head of the entire State Bank Group.

Prior to taking over as Chairman, he was Deputy Managing Director in charge of the International Banking Group of the Bank. During his tenure of 37 years in State Bank of India, he has held a number of important positions, including those of Chief General Manager (Foreign Offices), Chief General Manager of Chennai Circle and General Manager (Mid Corporate Group). Mr. Chaudhuri was also the Managing Director of State Bank of Saurashtra, and piloted its merger with State Bank of India.

Mr. Chaudhuri holds a post graduate degree in Business Administration with specialization in Finance.



## Financing MSMEs in Asia

*Mr. Sushil Muhnot, Chairman and MD, SIDBI*

### Introduction

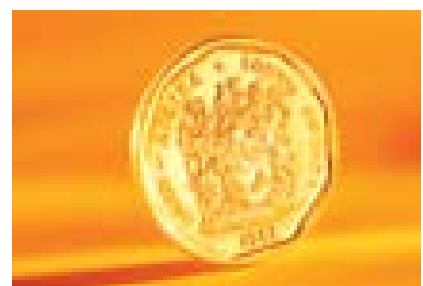
Micro, Small and Medium Enterprises (MSME) are the drivers of economic development and are backbone of many successful economies. They contribute to rural development, attend to unserved / underserved segments, support large enterprises and are apt nurseries for innovation and adaptation while enhancing inclusive growth.

The rise of global economies including developed (EU, Japan, South Korea, USA etc.) & fast developing Asian economies (for example the two Asian giants, China & India) can be attributed to

a great extent to the contributions made by MSMEs. In the last decade or so, various governments have formulated national agendas and development polices addressing various aspects of demand and supply to promote the MSME sector in their respective countries.

In the Indian context, there are over 30 Million MSME enterprises producing more than 6,000 products and is the second largest employment generator after agriculture, employing over 70 million persons. This sector contributes 8.7% to the country's GDP, accounting for about 40% of the industrial production & total

*With MSME sector expected to play a greater role in the economy going forward, banks and financial intermediaries will give greater overall focus in this area*



exports of the country.

While we are experiencing rapid changes in the pace of Globalization, there is a clear trend towards integrated and diversified financial system on one hand and integration of the production process across geographical regions by subcontracting and international division of labour on the other. Both have very significant consequences for the MSMEs.

With MSME sector expected to play a greater role in the economy going forward, banks and financial intermediaries will give greater overall focus in this area. While some may concentrate on SME segments by providing specially tailored services beyond traditional banking offerings to satisfy the needs of customers they understand better than more generalist competitor, other changes could be expected in the delivery channels used for lending to small borrowers and unorganized sectors, whereby roles of NBFCs and RRBs would become important. The move towards universal banking has

already begun and several large players are likely to adopt this model.

### Existing Gaps in MSME Sector

Experience shows that despite the increase in number of bank branches serving the MSMEs over the years, there is still a huge gap in the MSME eco system in terms of both debt and equity apart from developmental services.

While the access to debt has improved over the years, the supply of alternate source of capital like equity/risk capital/angel funding is almost non-existent vis-a-vis the requirements of MSMEs. Another significant area which has received scant attention is the service sector, which today is largely unbanked. The other major gap areas are in enhancing energy efficiency, timely provision of need based working capital.

SIDBI recognizes the gaps and believes that they can be addressed through a co-ordinated strategy. As an apex institution, SIDBI's interventions are aimed at

facilitating resolution of the issues related to MSMEs while developing the financial markets through specialized institutions like SIDBI Venture Capital Ltd [for Venture funding], Credit Guarantee Trust for Micro & Small Enterprise [for collateral free guarantee support], ISARC [for asset reconstruction], SMERA [dedicated SME rating].

### Strategies

Given the identified gap areas in the sector, there is a felt need to realign strategies in a more focused and co-ordinated manner to address the major gap areas. Some of the relevant issues which have been engaging the minds of the policy makers are discussed here.

#### ■ Equity, Mezzanine finance and Risk Capital

- Keeping in view the huge gap in the area the Union Budget for FY 2012 - 13, Government has announced the setting up of the India Opportunities Venture Fund [IOVF] with a corpus of `5,000 crore with SIDBI, to enhance the availability of equity and similar financial products to MSMEs, including start-ups and early / growth stage enterprises.
- SIDBI has, therefore a scheme called "Growth Capital & Equity Assistance Scheme" for MSMEs [GEMS] wherein special financial assistance is offered to bridge the gap between the two chief sources of finance viz. bank loans (senior debt) and promoter's capital. This assistance





is offered in the form of mezzanine/ convertible instruments, subordinated debt and equity (in deserving cases). This quasi-assistance is collateral free, has higher moratorium on repayment and a flexible structuring.

- Further, in order to reach out to MSMEs in a larger way, more emphasis is being given to the Fund of Funds concept.

### ■ Financing Service Sector Projects

- Service sector is emerging as a significant contributor to the national GDP and has a huge growth potential. Specific focus towards this sector is being given by the banking industry, including SIDBI which has identified the service sector as a niche area.
- Huge scope exists in different segments within the service sector like agri and agri-related services, cold chains and logistics. IT/ IT enabled & knowledge based services have been major contributors to growth in recent times, but going forward, strategies need to be realigned to face the rapid changes happening in competing countries like China and Malaysia. With the spread of English as a language in these countries, the competitive edge enjoyed by India is gradually diminishing. There is therefore, a desired need to move up the value chain in these services.
- Looking into the changing dynamics and huge demand for capital/funds in this



sector, banks and financial institutions need to re-design and dovetail their financial products to meet the challenges, more so in segments which are asset-light in nature. Focus is being shifted from collateral based lending to cash flow based lending.

- Every segment within the service sector has a unique requirement and hence, banks should be trying to come up with new financial products to tap this opportunity. Of course, understanding the different segment specific business models would be the key to success.

### ■ Sustainable Development-Energy Efficiency projects & Cleaner Technologies

- Majority of the MSME units in traditional sectors like textile processing, leather tanning, foundry, forging, ceramics, steel rerolling are operating on old /obsolete technologies with high carbon footprint. These units need to be made

aware and encouraged to use alternate technologies for improving energy efficiency. The other areas of sustainable intervention include addressing the social risks like environmental pollution, child labour, industry safety, etc.

- Various steps for addressing emergent issues of demand and supply side have been initiated. SIDBI has assumed a leadership role in the area of greening of MSMEs and has been attending to this from both financial and non-financial side.
- Under support from World Bank, SIDBI has been extending Environment & Social (E&S) Standards based loans to MSMEs. SIDBI has now extended E&S based refinancing assistance to key financial intermediaries and training the bankers to assimilate the same.
- On the demand side, SIDBI has contracted various multi-lateral Lines of Credit for promoting thematic agenda of environment and Energy

Efficiency [EE] projects in MSME sector. Under these Lines, apart from offering assistance at concessional rates of interest to MSMEs to take up energy efficiency investments, promotional activities have also been taken up to showcase the advantages of EE investments in the high energy intensive MSME sectors.

■ **Promoting Factoring Services**

- Recognizing importance of MSMEs in the Indian economy, the problem of delayed payments & receivable management and after identifying various limitations in the growth of factoring services, the Government of India (GOI) has made serious efforts to enact a separate Factoring Act. This is likely to create a favourable legal environment in the economy for providing factoring services and is expected to benefit MSMEs especially “Factoring without Recourse”. The passing of

the Act is expected to change the way Factoring business is being done as most of the legal limitations on growth of factoring business have been addressed through the Act.

- It is expected that MSMEs will stand benefited using factoring services as the Factoring organizations will bring in new products including Factoring without Recourse through the enabling legal framework. New NBFCs are expected to come forward to register with Reserve Bank of India for undertaking factoring activities in view of potential business opportunity.
- Factoring is a receivable management service; wherein the seller encashes against his credit sales. Factor makes pre-payment to the seller after deducting some margin, against production of sales invoices, collects the money from the purchaser on the due dates and pays balance amount to the seller after deduction of some charges.

**Leveraging its rich partnerships with national and international agencies and adapting of best global practices would go a long way in making the MSME domain more vibrant, resilient and competitive**

- The factoring facilities can be extended to existing well performing units in the MSME sector supplying components/ parts/ accessories/ sub-assemblies, etc., on short term credit to well established purchasers units.

■ **Facilitating traditional debt funding of MSMEs by other intermediaries**

- As a complementary to the core banking sector, the NBFCs have been playing a major role in the economy. Their focus on niche business segments, excellent domain knowledge and the last mile proximity to the clients give them a unique edge over traditional banks. Therefore, these networks need to be used more effectively as a complimentary delivery channel for extending assistance to MSMEs. Credit delivery arrangements with NBFCs can be worked out for business sourcing, basic due



diligence and assessment of proposals so as to reduce the “turnaround” time of credit delivery.

- Extending indirect finance through other channel partners like Factoring Companies / Regional Rural Banks, Urban Co-operative Banks, etc. can also be explored more extensively.

■ **Providing need based Developmental Services to smoothen the MSME ecosystem**

- Timely access to finance has remained an issue for the MSMEs. More so, at the start-up level. This has its roots in lack of adequate financial literacy and “skill set gaps” within MSMEs. Efforts have been made in this regard by various banks to disseminate information through different means including their respective websites/branch offices, etc. The eco-system also provides for professional services through CAs, consultants, etc



for credit facilitation. However, there is still a wide gap. To comprehensively address this basic issue of access to financial services, SIDBI has taken a lead and intends to address it through a three stage level.

- First, to address the issue of information asymmetry for MSMEs and also to promote youth entrepreneurship, a website called SmallB.com has been recently launched which is for basic information dissemination about various schemes of both Govt and Banks.
- At the second stage, to address the next level of requirement amongst the MSMEs, Credit Advisory Centers [CAC] have been established at clusters in collaboration with Industry associations. These centres are, inter alia, envisaged to guide new / existing entrepreneurs regarding availability of schemes of SIDBI / commercial banks; appraise MSMEs of various Government of India/State schemes beneficial

to them; provide borrowers with debt counseling; facilitate response to queries raised by banks etc.

- Finally, for making bank credit available to MSMEs in a timely, transparent and accessible manner the same is being addressed by a collaborative manner through Loan Facilitation Services - SIDBI Loan Advisory through a network of accredited MSME project consultants, rating agencies and commercial banks.
- Other initiatives which are being taken include capacity building of RRBs/UCBs engaged in the service of missing middle through training/resource support/sharing of IT based appraisal modules.

**Conclusion**

Development of the eco-system is the need of the hour. There has to be collaborative and co-ordinated strategy to facilitate easy credit and developmental support to MSMEs.

SIDBI's thrust would continue to be on identifying critical gaps in the MSME sector and taking a lead role in encouraging other players in entering uncharted areas by developing niche products, instilling innovations, and promoting inclusive growth to address various gaps. Leveraging

its rich partnerships with national and international agencies and adapting of best global practices would go a long way in making the MSME domain more vibrant, resilient and competitive.

In this backdrop MSMEs need to sharpen their competitiveness in order to improve access to

credit, technology, marketing and simplified systems. Quality and competitive pricing are becoming important by the day. MSMEs on their part have to be flexible, adaptable, inventive and innovative. Constant up-gradation would be the key and always aim for moving up the value chain.



**Sushil Muhnot**  
Chairman and MD, SIDBI

Mr. S. Muhnot is currently Chairman and Managing Director of Small Industries Development Bank of India (SIDBI). In tune with the changed times, Mr. Muhnot has spearheaded SIDBI, which is the principal financial institution set up by an Act of Parliament, for promotion, financing and development of Micro, Small and Medium Enterprises (MSMEs), in taking up a new role in MSME financing by moving away from the conventional approach to a new business model. His focus has been in the niche areas, viz. equity/quasi-equity support, mezzanine financing, funding of energy efficiency/clean technology projects, financing of service sector projects and receivables finance while staying away from plain vanilla bank lending. SIDBI's recently set up Credit Facilitation Centres are helping MSMEs in the areas of debt counseling/free consultancy services in obtaining financial assistance, etc.

Mr. Muhnot is also the Chairman of SIDBI Venture Capital Ltd. (SVCL), a wholly owned subsidiary of SIDBI as also its Associates viz., India SME Asset Reconstruction Company (ISARC) and Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

Mr. Muhnot holds a B. Tech, MBA, Certified Associate of Indian Institute of Bankers and Masters in Ecology and Environment.



## India's rise in Asia

*Dr. Shubhada Rao, Chief Economist, YES Bank*

### Background

The economic rise of Asia has been of the most noticeable transformations on the face of global economic landscape in the last few decades. The genesis of this change was marked by the rise of the East Asian economies in the 1970's, followed by the phenomenal rise of People's Republic of China in the 1980's and 1990's, and more recently the Indian economy in 2000's. In addition to their large populations, the economic size and financial power—measured by output, trade volume and foreign exchange reserves, Asian economies have grown rapidly. As such, clearly the en-

gine of world growth has shifted from the Western economies to the Asian economies, more so, in the aftermath of the global financial crisis

Amongst the Asian economies recording spectacular growth, India stands out distinctively in terms of its growth model. While all successful Asian economies relied on an export-oriented growth model, India's growth momentum has largely been driven by a strong services sector and buoyant domestic consumption.

Up till early 1990's, India's interaction and integration within Asia was exceedingly limited. As such, the "Look East Policy" ad-

*India's growth momentum has largely been driven by a strong services sector and buoyant domestic consumption*



opted in 1992 by India, with the goal of achieving greater integration with its dynamic neighbors in Southeast and East Asia, ushered in an era of change. Major initiatives since then have included comprehensive economic partnership agreements and free trade agreements (FTA) with key trading partners in the region, most notable and recent of which is the FTA between India and ASEAN. The positive outcome of these initiatives is reflective in a sharp increase in bilateral relations between India and other Asian economies and the growing economic status of India in the Asian region.

### **India's rise in Asia: Key Economic Trends**

#### **Growth**

India has historically notably contributed close to 20% to Asia's GDP. Although this contribution has declined marginally to 18.5%, from the 2000's till date, India still remains the second-largest economy in Asia, after China. The correlation between India and Asia's GDP growth has remained strong at close to 62% during 1997-2012, but has markedly increased to 83% since 2008, indicative of rising contribution of India to Asia's growth.

India's superior economic clout in the region is also validated by an Asian Development Bank's study assessing cross-region spillovers from one economy into another, by measuring the effect of a shock in recipient countries as fractions of the event's effect in its home economy. The study concluded that although a spillover

impact of a 1% decline in India's GDP was experienced by all nations (US, Europe, Japan), regions in Asia were impacted the most, with ASEAN and China losing roughly a quarter of the size of the decline in Indian GDP. In an economic milieu of India's rising co-integration with the region, it has become evident that India's GDP growth has not only become increasingly commingled with Asia, but also influential on the region's growth rate.

#### **Trade**

Since 1992, India has witnessed a significant transformation in its trade relations with countries in the South East Asia and the Pacific region.

Exports to Asia stood at 28% of total Indian exports in FY11, of which exports to ASEAN nations accounted for 10%. Bilateral trade and investment between India and ASEAN nations has expanded considerably to USD 57bn in FY11, an increase of 30% over the previous year, and substantially greater than USD 2.5bn in FY94, according to the Ministry of External Affairs Annual Report 2011-12.

In order to boost trade relations between India and its regional partners, and actively enhance India's role in the region, bilateral Comprehensive Economic Cooperation Agreements (CECA) with key partners such as Russia, Japan, Malaysia, and Singapore amongst others have been concluded, while negotiations with Indonesia and Thailand are underway. In addition, while free trade in goods pertaining to the India- ASEAN Free Trade Agreement is already operational, negotiations for free trade in services and investments are at an advanced stage.

#### **FDI/FII**

Further evidence of closer de facto India-Asian integration lies in the foreign direct and institutional investment numbers.

Post the Lehman crisis, FDI inflows in to South Asia decreased, but turned around in 2011, due to an inflow of USD 32 bn to India, up 52% from the previous year. Moreover, of the USD 176bn invested in India from 2000 till Jul-12, USD 86bn or 49% came from Asian nations, indicating the close integration and dominance



of India in Asia. Similar to FDI inflows, FDI outflows from the region also multiplied, led by Indian companies investing in overseas greenfield projects. As such, FDI originating from India (to the rest of the world) rose by 13%YoY to USD 14.8bn in 2011. To put the above in Asia's perspective, according to the World Investment Report 2012, transnational corporations from India have been the most active investors in Asia.

Looking at foreign equity investment, the latest round of policy initiatives by the government have served to brighten market sentiment and India has received the highest FII inflows in 2012 till date, amongst its Asian peers including Indonesia, Philippines, South Korea, Taiwan, Thailand and Vietnam. In the month of Sep-12 alone, India has managed to attract USD 258mn of FII flows, after suffering a brief lull in early 2012.

### India: The next Asian superpower Current strengths and challenges

India can play an important role in rebalancing and driving

growth in Asia, given its structural strengths, but nonetheless faces a few challenges itself in the near term.

#### Demographic dividend

Amongst the Asian countries, India enjoys favorable demographics, as reflected in rising ratio of working age population to total population. This ratio has already begun to decline for China, Korea, and Japan, while India's ratio is projected to peak in 2035, and gradually decline thereafter. Even in 2050, India is expected to have the largest share of working age to total population in comparison to its Asian peers.

According to an IMF Paper (2011), a substantial part of India's growth acceleration since the 1980s can be attributed to demographic change. However, in order for India to fully capitalize on its demographic strengths, not only must growth be inclusive, but continual government investment along with active private sector participation in health, education and infrastructure is also required to create an employable labour force.

India's investment in its soft in-

frastructure remains sub-optimal in comparison to its Asian peers. India merely spends about 3.8% of its GDP on education, with per capita spending on higher education being one of the lowest in the world. Moreover, as health-care expenditure is skewed towards private expenditure, there is greater room for public spending. The benefits of a demographic dividend will only accrue if India invests adequately in its populace.

#### Political stability

India is the world's largest democracy and the political climate is characterized by a stable system, despite a coalition government. In the recent past, compulsions arising out of a coalition system of governance have led to a slackening pace of reforms, but in the present day, the government has zealously pushed forth with key reforms despite losing a key ally.

However, like most developing nations, India too has fallen victim to red tapism and bureaucratic delays, often resulting in project approval and implementation delays. Moreover, debatable issues such as land acquisition and environmental clearances have taken a toll on key infrastructure projects. According to a May-12 report by the Ministry of Statistics and Programme Implementation, 28 delayed projects in power, 36 in railways and 84 in road transport led to a cost overrun of INR 52,000 cr., emphasizing the urgent need to revamp the bureaucratic process, in order to facilitate a smooth, hassle-free business environment.



### **Private sector to cater to infrastructure needs**

The private sector has played a crucial role in India's growth story, and is expected to continue to do so. Liberalisation and key reforms in 1991 provided much needed impetus to the economy, unshackling stringent regulations and allowing the private sector to fully capitalize on its capabilities. Sectors such as pharmaceuticals, auto & auto components and chemical & chemical products have thereby carved success stories and flourished in India.

Nonetheless, the poor state of the current physical infrastructure, both in terms of quantity and quality, is insufficient to allow India to sustain a high rate of economic growth. Thereby, the Indian government has not only endeavoured to attract private investment in infrastructure via public-private partnerships, but has also aimed to double investment in infrastructure to USD 1 tn over the next five years.

### **Rapidly growing middle class driving consumption**

Consumption contributes 70% to India's GDP. Further, India's total private final consumption expenditure is expected to expand from the current ` 30 tn to ` 113 tn by FY20. Not only is consumption on an uptrend, but the underlying trend in expenditure is shifting from essential items such as food and clothing towards discretionary items and economic enablers such as healthcare, education and recreation etc.

### **A resilient services sector and scope for the manufacturing sector**

The services sector in India not only provides vital support to the economy, but is also a leading provider of IT and software to the world. However, given the vast pool of unskilled labor and the inability of the services sector to generate adequate employment opportunities, a strong and dynamic manufacturing sector is a prerequisite for sustainable growth. As such, going forward, policy focus is expected to lean towards creating gainful employment opportunities with a maximum multiplier impact. In this context, the National Manufacturing Policy (NMP) would play a vital role. The NMP envisages increasing the sectoral share of manufacturing in GDP to 25 percent by 2022 from 16 percent currently, while generating 100 million additional jobs. This will truly help transform India into a global manufacturing hub, expanding beyond the automotive and pharmaceutical sectors.

### **Banking sector expansion**

With strong demand side drivers leading economic growth in the years to come, policy focus on supply side drivers and structural fiscal policy changes will create immense opportunities for the Indian banking and financial system. Banking penetration remains low in India-with about 11 commercial bank branches per lakh of adult population in India compared to 36 commercial bank branches per lakh of adult population in the US. Over the next few years, the key challenge facing the Indian bank-

**The present day is optimal for both India and Asia to play an increasingly influential role in the global set up**

ing industry would be to increase its financial outreach. Firstly, it will be required to expand its branch networks in rural areas. Secondly, efforts will be needed to propagate the use of technology as an enabler for client acquisition and servicing-potentially through internet, mobile banking, call centers and alternate channels

### **Conclusion**

India's macro fundamentals have remained under duress for most of FY12, and the nation faces near-term domestic macro headwinds with the budget and external deficits under pressure and an adverse growth-inflation dynamic. In order for India to emerge unscathed from this situation, and commence on a path of stable and higher sustainable economic growth closer to its potential, the government's recent announcement of bold policy reforms have been a step in the right direction. The pivotal reforms have already served to usher in foreign investment as well as boost domestic sentiment.

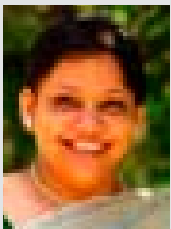
Further, India displays tremendous potential in terms of its demographics, stable political system, resilient structurals, and a well-functioning financial system, but



the nation must shoulder greater responsibilities, and have its voice heard in a global economic and financial setting, commensurate with its rising economic weight.

As developed economies grapple with myriad problems ranging from unbridled fiscal deficits to political protests, and realize the restraints of their monetary policy

arsenal, the present day is optimal for both India and Asia to play an increasingly influential role in the global set up.



**Shubhada Rao**  
Chief Economist  
YES BANK

Dr. Shubhada Rao is the Chief Economist at YES BANK. She is responsible for the Economics Knowledge Banking providing macroeconomic research outlook at the Bank. She is a member of YES Bank's Asset and Liabilities Committee. She got 23 years of experience in academia and industry wherein she has pioneered research design geared to facilitate business decisions.

Prior to joining YES BANK, Dr. Rao has worked with Kotak Institutional Equities as Chief Economist, with Bank of Baroda as Economist with Risk Management and as Head, Economic Advisory at CRISIL Advisory Services and Chief Economist with Times Bank. She is an active member of the Economics Committees of Industry Associations and is former Chairperson of Economics Committee of Bombay Chamber of Commerce & Industry, Member of CII National Economic Policy Council, New Delhi and a member of the Monetary Policy Group – Indian Banks' Association (IBA). She has made extensive presentations on Indian Economy to State Dignitaries of many OECD economies, Consulates, Ministers and Secretaries of State of the UK & US among others to present views on Indian Economy. Her views are often aired on domestic and international electronic and print media.

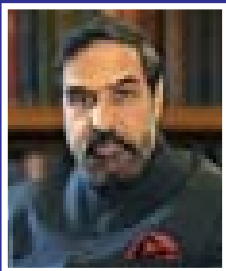
Dr. Rao holds a PhD in Economics from University of Mumbai.



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## Key Speakers

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D K Mittal, Secretary, Ministry of Finance Government of India  
H R Khan, Deputy Governor, RBI  
Jignesh Shah, Founder & Group Chairman, Financial Technologies Group  
Deputy Governor, Thailand  
Deputy Minister of Finance, Indonesia  
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# **The Policy Pulse**

## Banking Sector

### **RBI launches online platform for trading in secondary market**

The RBI has introduced internet-based platform for trading in secondary market of government securities for gilt account holders. The web-based NDS-OM (Negotiated Dealing System-Order Matching) system module will facilitate buying and selling of government bonds or securities online to the gilt account holders (GAH). The RBI had introduced the NDS-OM system in August 2005. The NDS-OM is an electronic, screen based, anonymous, order driven trading system for dealing in government securities.

### **RBI may relax NBFC-MFI norms**

The RBI is likely to relax some of the norms pertaining to microfinance institutions' net worth, capital adequacy and provisioning needs. "The roll-out of the new regulatory regime has run into some bottlenecks. Some MFIs are unable to comply with the qualifying asset criterion for registering as non-banking finance company-MFIs and, therefore, banks are reluctant to make fresh loans to them, as such loans do not qualify as priority sector lending,"

### **RBI to introduce plastic money on pilot basis**

The RBI is planning to introduce plastic currency on a pilot basis as it has been proven to be economical and environment-friendly when compared to paper currency.

### **RBI may launch new financial products with 'golden' yields**

The RBI announced it is contemplating measures to ensure the country consumes less physical gold as the consumer craze for the yellow metal is putting the nation's external trade at risk. A sharply depreciating rupee and the highest ever current account deficit, excess of imports over exports, at 4.5% of the gross domestic product has made policy-makers think of ways to curb the demand that's draining productive purposes.

### **RBI to soon launch e-learning package to address ECB queries**

The RBI will soon launch an e-learning package as well as establish nodal offices for banks to address issues related to external commercial borrowings. "The RBI will create nodal offices for dealers. The authorised dealer must get their clarification with nodal offices (in their region) before approaching



it,” “Also, RBI has decided to prepare an e-learning package for the authorised dealers along with Foreign Exchange Dealers’ Association of India (FEDAI) and the package will soon be shared and made available to all the authorised dealers”. This will guide people and most of the queries of the authorised dealers will be addressed through this.

#### **Personal guarantee must before loan restructuring: RBI panel**

A RBI panel has recommended banks should seek personal guarantee from promoters and adopt a ‘carrot-and-stick policy’ while restructuring loans of corporates. “As stipulating personal guarantee will ensure promoters’ skin in the game or commitment to the restructuring package, obtaining the personal guarantee of promoters be made a mandatory requirement in all cases of restructuring,” the panel said in its report.

#### **RBI replaces ‘no-frills’ account with basic savings A/c**

RBI has asked banks to drop the ‘no-frills’ tag from the basic saving accounts as the nomenclature has become a stigma. It has asked the banks to provide zero balance facility in the basic banking accounts along with ATM-cum-debit cards without any extra charge. The central bank had introduced ‘no-frills’ accounts in 2005 to provide basic banking facilities to poor and promote financial inclusion. The accounts could be maintained without or with very low minimum balance.

RBI has asked the banks to convert the existing ‘no-frills’ accounts into ‘Basic Savings Bank Deposit Accounts’. While there will be no limit on the number of deposits that can be made in a month, Basic Savings Bank Deposit Account holders will be allowed a maximum of four withdrawals in a month, including through ATMs.

#### **RBI tightens norms for securitisation of loans by NBFCs**

RBI has tightened the non-banking finance company (NBFC) securitisation norms by stipulating that a non-banking finance company will have to retain at least 5 per cent of the loan being sold to another entity. The revised guidelines, issued by the RBI also stipulate that NBFC cannot sell or securitise a loan

unless three monthly instalments have been paid by the borrower. These stipulations, the central bank said are aimed at checking “unhealthy practices” and distributing risk to a wide spectrum of investors.

#### **RBI Governor Duvvuri Subbarao cuts CRR by 25 bps; leaves interest rates unchanged**

RBI has left interest rates unchanged, choosing to play the role of a spectator for now instead of joining the government in the game of growth revival. But the conservative central banker did not disappoint the banking system altogether and cut the cash reserve ratio (CRR) by 25 basis points to 4.5%, a move that would release Rs 17,000 crore worth of funds locked up with RBI into the banking system and could prod banks to lower lending rates.

#### **RBI mulling financial products to check gold imports**

Concerned over rising gold imports, the RBI is planning to come out with financial products on the lines of gold ETFs to give options to investors to take advantage of price movement in the precious metal.

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## Capital Markets Sector

### **RBI, SEBI propose National Strategy for Financial Education**

Financial sector regulators, including RBI and SEBI, have proposed a nationwide survey for assessing financial inclusion and literacy in the country and educate 500 million adults, besides providing financial education to school children. The draft 'National Strategy for Financial Education' seeks to "create a financially aware and empowered India" and convert savers into investors. It pitches for a five-year action plan for financial literacy with initial focus on four sectors -banking, securities market, insurance and retirement planning.

### **SEBI eases MF investment norms for QFIs**

SEBI has relaxed investment norms for qualified foreign investors (QFIs) allowing them to invest in mutual fund schemes with at least 25 per cent of their assets either in debt or equity of the infrastructure sector under the US\$3 billion investment limit of debt mutual fund schemes which invest in infrastructure. Earlier, QFIs were allowed to invest in mutual fund schemes with debt exposure only. It also said that prior approval of the regulator is not required if the investment is less than 90 per cent of the specified ceiling.

### **SEBI plans separate regulator for Stock Exchanges**

SEBI plans to set up an independent SRO (self regulatory organisation) for stock exchanges,

but wants the day-to-day trading regulations and surveillance actions to remain with bourses themselves. Under the existing regulatory framework in India, stock exchanges act as front-line regulators for the market and SEBI is the ultimate oversight and regulatory authority. After putting in some efforts to effect a major overhaul last month in the way stock exchanges are run and owned, SEBI is now looking at ways to minimize any possible conflict of interest in the regulatory and business interests of bourses.

### **SEBI outlines grievance redressal mechanism**

SEBI released a fresh set of information for new investors on redressal mechanism for complaints related to price manipulation, insider trading and other issues. According to the fresh set of information, if an investor has grievances against a listed company or intermediary registered with SEBI, he/she should first approach the concerned company or intermediary against whom he has complaints.

### **SEBI allows SME platforms on exchanges**

Government of India and SEBI came out with regulations allowing creation of Small and Medium Enterprise (SME) platforms to trade on recognized stock exchanges. According to SEBI, the objective behind launching dedicated SME platforms is to help the SME companies unlock their wealth in medium to long term and to create wealth for various stake holders.

### **Easing fast-track route norm to benefit 80 companies**

SEBI relaxed the threshold free-float market capitalisation (m-cap) level for issuers to access the market through fast-track follow-on public offering (FPO) and rights issues from Rs 5,000 crore to Rs 3,000 crore. The relaxation will benefit 80 issuers. Some of the companies likely to benefit include Reliance Capital, ABB, Bharat Forge, Aditya Birla Nuvo and Crompton Greaves. Among public sector undertakings, Hindustan Petroleum Corp, Oil



India, Union Bank of India, Mangalore Refinery and Petrochemicals and MMTC will qualify for fast-track clearances.

#### **SEBI willing to give more options for public shareholding norms**

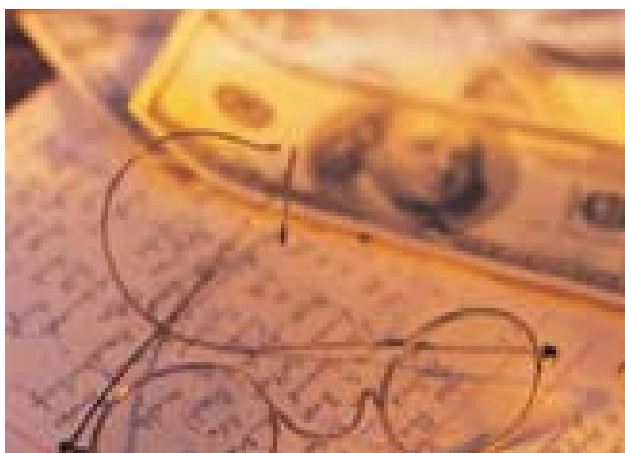
SEBI has said that it is willing to come up with fresh measures to ensure that listed companies comply with minimum public shareholding norms. If there was a demand from corporates and SEBI feels the demand is genuine, then it would be ready to come out with more avenues to meet minimum shareholding norms.

#### **SEBI liberalizes market access for SMEs**

SEBI has proposed conditional market access through initial public offering (IPO) for small and medium enterprises (SMEs) that have not met the continuous "three out of the past five years" of profitability criterion. As per the existing norms, an entity with continuous profitability of three previous financial from the proposed date of IPO is required. But SEBI in its meeting held on September 16 relaxed this norm and allowed entities to have market access even without this condition.

#### **SEBI notifies new governance rules for depositories**

SEBI has notified new governance rules for the depositories including those related to composition of their boards, salaries of top officials and their listing. As per the regulations, a depository board would have to include shareholder directors, public interest directors and managing director.



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#### **Demarcate accounts for ASBA facility in public offers: SEBI**

SEBI has directed banks to clearly demarcate separate accounts for public offer applications, filed under ASBA (Application Supported by Blocked Amounts) facility - under which money remains in the investors' accounts till the time of share allotment. SEBI said in a circular that it has noticed some banks making applications on own account using ASBA facility, without having clearly demarcated funds and that some banks are marking lien against credit limits/overdraft facility of their account holders' for ASBA applications.

#### **SEBI asks AMCs to rein in churn-happy distributors**

SEBI has asked asset management companies (AMCs) to make additional disclosures regarding their distributors and conduct additional due diligence on distributors with high churn. Now, AMCs will have to make disclosures regarding distributor-wise gross inflows including the

distributor's association with the AMC, net inflows, average assets under management and ratio of AUM to gross inflows on their respective website on a yearly basis. The consolidated data would also have to be disclosed on the website of industry body, the Association of Mutual Funds in India.

**SEBI asks bourses to synchronize listing date, approval**

With an aim to check transfer of shares and other securities issued through public offers and other issues even before listing, SEBI asked the stock exchanges to synchronise their listing dates and trading approvals with each other for fresh shares.

**SEBI announces reform measures for mutual fund industry**

SEBI has proposed a slew of measures (pending notification) to increase the participation of retail investors in the mutual fund industry. At present, equity mutual funds can charge a maximum up to 2.5 per cent as expense ratio. Mutual funds had to allocate a maximum of 1.25 per cent as fund management fee/charge, and 1.25 per cent as other expenses incurred by the AMC for marketing, distribution, operations. Any expenses above 2.5 per cent are to be borne by the AMC. SEBI has now proposed to remove the sub-limits on expenses, giving AMCs freedom to allocate the 2.5 per cent expense ratio the way they want to.

AMCs are further allowed to charge additional total expense ratio (up to 30 basis points, if 30 per cent of their net sales take place beyond the top 15



cities (100 basis points make 1 per cent)) depending upon the extent of new inflows from locations beyond top 15 cities.

To enable the mutual fund industry to be in line with all other industries, where service tax (12.36 per cent) is borne by the end-user, SEBI has decided that the service tax payable on investment management fees should be charged to the scheme and be borne by investors over and above the TER of 2.70 per cent or 3 per cent as the case maybe.

**SEBI may ask companies, banks for detailed basis of IPO price**

SEBI may soon ask companies and merchant bankers to limit any business transactions amongst them to bare minimum and to provide investors with a detailed analysis of how they discover the IPO price range. The proposed steps are aimed at safeguarding the investors' interest and ring-fencing the Initial Public Offer (IPO) market from possible over-pricing of the public offers through a nexus between the company promoters and merchant bankers.

**Shome Committee recommendations on GAAR**

The government-appointed panel headed by economist Mr. Parthasarathi Shome has recommended that the General Anti-Avoidance Rules (GAAR) should be implemented only from 2016-17. The deferment would allow an informed debate and enough time for corporates to prepare for a new regime.





## Insurance Sector

### IRDA for removal of loan against Ulips

Insurance companies may not give loan against your unit-linked policies in case IRDA puts into operation the latest draft guidelines on new products. At present, a policyholder can get loan against saving and investment policies, both traditional and unit-linked insurance plans (Ulips) up to 85 per cent of the policies' surrender value.

Loans under Ulips shall not be allowed, said IRDA in the second draft guidelines circulated to the insurance companies. After first draft of these norms was circulated last month, IRDA had asked Life Insurance Council, the life insurance companies lobby group, to respond whether loans on Ulips be allowed or not. The move to ban loans against Ulips has apparently been mooted to provide immunity cover to insurance companies from equity market volatility.

### IRDA plans guidelines to regulate micro-insurance

India's IRDA is planning to come out with guidelines for the micro-insurance segment in the country to ensure its growth. Micro-insurance is important to ensure financial inclusion.

### IRDA wants kirana shops, chemists to sell micro insurance

To promote penetration of insurance in the country, IRDA today proposed to rope in kirana shopowners, chemists shops and petrol pump operators to sell micro insurance products. Micro insurance products are schemes with low ticket size and targeted towards rural and urban poor.

### IRDA changes rules for endowment plans

Big annual bonuses on endowment insurance plans could be a thing of past. The IRDA has proposed a minimum death benefit on endowment plans, which means a larger part of the premium may go towards insuring the life of the policyholder.

For regular premium plans, the minimum death benefit proposed for entry age less than 45 years is 10 times the annual premium, or half of annual premium

multiplied by the policy term, or 105 per cent of all the premiums paid, whichever is higher.

For entry age over 45 years, the same is higher of seven times the annual premium, one-fourth of annual premium multiplied by the policy term and 105 per cent of all premiums paid.

The guidelines also link commission paid to agents with the policy tenure. For policies with a tenure of five-nine years, the first-year commission cannot be more than 14 per cent of the annual premium, 28 per cent for 10-14 year tenure, and 40 per cent for 15 years or more (35 per cent for insurers more than 10 years old). IRDA has also proposed to make policies eligible for surrender value if premiums have been paid for two years instead of the current three years.

### IRDA Chief favours FDI hike in insurance sector

IRDA Chairman J. Hari Narayan welcomed the suggestion to hike foreign direct investment in the sector.

"Capital from FDI will definitely help. The total volume of money in the IPOs (initial public offer) raised by insurance companies is limited. So, like other sectors, insurance too will require greater levels of investment and in that regard, we will welcome steps to increase FDI in the industry,"

The Bill for raising FDI level in insurance has been moved in Parliament and that the inputs by the regulator have been given.



**IRDA to frame policy for automatic clearance of life products**

IRDA will come out with a new policy to accord automatic clearance to the standard life insurance products and relax investment guidelines to encourage fund flow into infrastructure sector. At present, IRDA approves all insurance products on File and Use basis which means that insurance companies can sell the product only after getting approval from the insurance regulator.

**IRDA working on system to improve health insurance service**

IRDA is working on a centralised mechanism to capture health insurance data with a view to improving the service and preventing misuse of mediclaim benefits by hospitals. In the long run, sources said, this would also be useful in developing a code in line with the global practice, besides reducing the cost of health insurance and enhancing its reach.

The health insurance sector is facing problems because of high cost to claim ratio. The cost ratio for the public sector companies was 140 percent of the premium received under the health portfolio as on June, 2012.

**IRDA goes flexible in draft regulations on bancassurance**

The IRDA has rolled out a revised set of draft regulations on bancassurance tie-ups that are expected to give more flexibility to banks as well as insurers. Banks, IRDA suggested, can sell



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insurance products by either becoming a broker or a bancassurance partner, with those opting to be brokers having to withdraw from their existing bancassurance partnership.

There are certain changes in the zonal tie ups specified in the earlier draft.

The Finance ministry allowed banks to sell insurance offered by more than one company through a broking agency model.

According to the Finance Minister, "It was desirable for banks to act as brokers and that the fiduciary responsibility of the bank will be to the policyholders. This will provide the intended policyholder a bouquet of products from which he/she may chose the appropriate product based on his/her needs and will also prevent mis-selling



# **FICCI's Data Centre**



## Registration Details

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Category	Rate Applicable	
	Less Than 3 Delegates	If 3 or More
FICCI Associate Members	INR 10,000/-	INR 9,000/-
FICCI Corporate Members	INR 9,000/-	INR 8,000/-
Non-FICCI Members	INR 12,500/-	INR 11,500/-

### For International Delegates, (Per Delegate)

Category	Rate Applicable	
	Less Than 3 Delegates	If 3 or More
Non- Asian Countries	USD 1000	USD 850
Asian Countries	Please refer to International Delegate Registration Form available on website: <a href="http://www.ficciboao-afcc.org">www.ficciboao-afcc.org</a>	

## Key Speakers

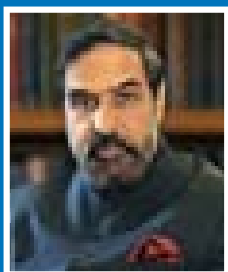
Anand Sharma, Minister of Commerce & Industry, India  
 D K Mittal, Secretary, Ministry of Finance Government of India  
 H R Khan, Deputy Governor, RBI  
 Jignesh Shah, Founder & Group Chairman, Financial Technologies Group  
 Deputy Governor, Thailand  
 Deputy Minister of Finance, Indonesia  
 Yasuo Fukuda, Chairman, Boao Forum for Asia  
 Deputy Minister, Ministry of Finance, Malaysia

Governor, Singaporean Monetary Authority  
 Saito, President, Tokyo Stock Exchange  
 Schive Chi, Chairman, Taiwan Stock Exchange  
 Zhou Wenzhong, Secretary General Boao Forum for Asia  
 Dennis Bracy, CEO, US-China Clean Energy Forum  
 Fang Fang, Vice Chairman, Asia Pacific JP Morgan Chase  
 Biswajit Dhar, Director General, Research and Information System for Developing Countries (RIS), India

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# Indian Economy-An Update

## Key Economic Indicators

GDP	5.5% - Q1, 2012-13 5.3% - Q4, 2011-12
IIP	2.7% (August, 2012) - 0.2% (July, 2012) (Revised) 0.4% (Cumulative growth April-August, 2012-13)
WPI Inflation (%)	All Commodity: 7.81% (September, 2012) All Commodity: 7.55% (August, 2012) All Commodity: 7.52% (July, 2012) (Revised)
Interest Rates	CRR: 4.5% p.a (wef 22 September, 2012) Bank Rate: 9.00% Reverse Repo Rate: 7.00% Repo Rate: 8.00%
Exchange Rate	53.67 (Dollar), 70.06 (Euro) 86.04 (Pound), 67.45 (Yen) [as on Oct 22, 2012]

Source: MOSPI, RBI & Ministry of Commerce and Industry, GOI

## Key Facts Q1 FY12-13: A snapshot

- GDP records a growth of 5.5 per cent for Q1, FY 2012-13
- General IIP Index of 165.7 in August, 2012 stands 2.7 per cent higher than the same month last year
- Government notifies 51 per cent FDI in multi-brand retail trading
- Foreign airlines permitted to invest up to 49 per cent in both scheduled and non-scheduled air transport service
- Cabinet clears 49 per cent FDI in insurance and pension sectors

## Economic Scenario

- In line with the general economic outlook, GDP registered a growth rate of 5.5 per cent for the first quarter of the current fiscal. It is an improvement over 5.3 per cent registered in the fourth quarter of FY 2011-12. An accelerated agriculture and industry sector growth has primarily helped the growth along for this quarter.
- Agriculture sector revived with a late monsoon to grow at the rate of 2.9 per cent, Q1 FY 2012-13. Growth momentum is expected to continue in to the next quarter and reflect even better performance if the monsoon continues to be favourable.
- Industry recorded 3.6 per cent in Q1, FY 2012-13, vis-à-vis 1.9 percent in Q4, FY 2011-12. Industrial economic activities which recorded significant growth included Construction and 'Electricity, gas and water supply'. Construction sector has shown remarkable growth of 10.9 per cent. Key

drivers of growth in the sector namely, production of steel and cement reported high growth rates. This assumes importance since the sector had not even reached 7 per cent growth in any quarter of the previous fiscal.

- In the services sector, 'Trade, hotels, transport and communication' have had a dampening effect on the overall growth rate of the sector. It registered a meager growth of 4 per cent in Q1, FY 2012-13 compared with high growth throughout the previous fiscal. A weak consumer sentiment in the economy has been responsible for low growth in this segment.
- Consumption in the economy has not picked in the first quarter. It is reflected in the consumption expenditure remaining constant at 59.5 per cent of GDP for Q1, FY 2012-13 compared to the first quarter of FY 2011-12. Increase in government expenditure to 11.1 per cent, over 10.6 per cent in the same period last year, has helped push growth to some extent.
- In Q1, FY 2012-13, Investment is reported to have declined to 32.8 per cent from the last year's figure of 33.9 per cent of GDP in Q1, FY 2011-12. Recent push by the government to reform the retail, aviation, insurance and pension sectors is expected to boost the investment climate in the second half of the current fiscal.



Industry	April-June Q1	
	Rates of GDP at Market Prices (%)	
	2011-12	2012-13
Private Final Consumption Expenditure (PFCE)	59.5	59.5
Government Final Consumption Expenditure (PFCE)	10.6	11.1
Gross Fixed Capital Formation (GFCF)	33.9	32.8
Change in Stocks	3.7	3.5
Valuables	2.6	1.1
Exports	23.7	25.1
Less Imports	32.3	33.6
Discrepancies	-1.7	0.4
<b>GDP at market prices</b>	<b>100.0</b>	<b>100.0</b>

Source: MOSPI

## Inflation

Headline WPI Inflation remained sticky in Q1 FY, 2012-13. It remained at a monthly figure of 7.5 per cent and above throughout the first quarter. The figure came down a bit in July (6.87 per cent) owing to an easing of vegetable prices in July-August. But it was offset by a rise in prices of cereals and pulses. In effect, the August figure went up to 7.55 per cent.

In the current macro-economic scenario, India is experiencing slow growth with significantly high levels of inflation. Monetary policy alone would not suffice to stimulate growth as its prime objective is to manage inflation. Government needs to combine monetary expansion with fiscal incentives to boost growth in the economy.

Fiscal expansion would accelerate demand in the economy and supply would then need to match the increased demand. But low Investment levels in the economy have resulted in reduced productivity and hence production. Recent government initiatives to enhance investment, such as FDI in retail and aviation, proposals to incentivize insurance companies would help increase production (supply) in different sectors of the economy. Once the combined effect of fiscal policy initiatives on domestic demand and the subsequent increase in production take effect, inflation would also tend moderate in the medium term.

RBI reduced the cash reserve ratio (CRR) by 25 basis points in its Mid-Quarter Monetary Policy Review: September 2012. It has introduced the much needed liquidity of 170 billion rupees in to the banking system. RBI would be cautious in further cutting CRR (leave aside an interest-rate cut) in the upcoming quarterly review of monetary policy. It's because the fiscal incentives would take some time to boost demand. However, high inflation figure of 7.81 per cent registered in September, FY 2012-13, a combined effect of diesel price hike and food grain inflation, might persuade RBI to stay away from further monetary expansion.

### Fiscal Deficit

With the fiscal deficit target for 2012-13 pegged at Rs.5.13 lakh crore or 5.1 per cent of the GDP (gross domestic product) as estimated in the budget, Dr. Arvind Mayaram, Economic Affairs Secretary noted that the gap is likely to widen. He said that the Government will not be able to contain fiscal deficit to the Budget plan of 5.1 per cent [of the GDP]. The Kelkar Committee Report also forecasted the fiscal deficit to be at a higher level of 6.1 per cent of GDP for the current fiscal compared to the budget estimate. Committee has highlighted several factors responsible for an anticipated fiscal distress in the economy for the FY 2012-13. On the revenue front, it predicted a shortfall in tax revenues and subdued equity market conditions (negatively impacting disinvestment receipts) as potential reasons for shortfall in government revenue. Substantial expenditure on subsidies, on the other hand, is expected to outweigh the budget estimates to reach 2.6 per cent of GDP in 2012-13. Fertilizer and food subsidies would account for a significant portion of this expenditure. Widening gap between stressed revenue sources and unsustainable expenditure on subsidies would pose grave fiscal risk to the economy in FY 2012-13.

With Rs.3.70 lakh crore already borrowed during the first half of 2012-13, which works out to 65 per cent of the Centre's budgeted market borrowing programme of Rs.5.69 lakh crore, the government, decided to raise the balance Rs.2 lakh crore during the second half of the fiscal year.

### Current Account Deficit

The current account deficit (CAD), the excess of imports over exports, fell to 3.9% of the gross domestic

product at USD 16.55 billion in the June quarter, from 4.5% in March. That is an improvement, but not sufficient enough to conclude that the worst is over given the revival of the crisis in Europe. Since July, foreign investors have brought in USD 10.6 billion, of which about USD 8 billion came in after the new Finance Minister P Chidambaram made a series of announcements to liberalise the economy and kick-start reforms.

However some economists speculate that India's current deficit may soar to a record high in the September quarter on high non-oil imports after briefly narrowing in the June quarter, which could make the rupee susceptible to a sudden reversal in capital inflows. The current account deficit may hit an all-time high of 4.9 percent of gross domestic product in July-September, surpassing its previous high of 4.5 percent in the March quarter.

### Trade Deficit

India's merchandise exports in August fell at a sharper pace than imports, widening the trade deficit marginally to \$15.6 billion from July's \$15.5 billion, according to provisional data issued by the Ministry of Commerce. Exports fell 9.7% from a year earlier to \$22.3 billion, while imports dropped 5.08% to \$37.9 billion, the data showed. The numbers are little changed from July, when exports were \$22.44 billion while imports were \$37.94 billion.

Oil imports in August rose 2.96% to \$12.8 billion, while nonoil imports dropped 8.74% to \$25 billion. Total exports since this fiscal year began on April 1 fell 5.96% to \$119.9 billion, while imports slid 6.2% to \$191.1 billion, the data showed. India aims to boost exports by about 20% to \$360 billion in the current fiscal year. However, a slowdown has raised worries that it could fall short of the target.

### Rupee Movement

A surge in portfolio inflows due to recent reforms has ensured that net capital inflows are enough to finance the widening deficit. The rupee rose to a near six-month high of 51.32 to the dollar earlier in October mainly on the back of reform moves by the government to give a fillip to growth. It, however, fell in the second week of October, posting its biggest weekly loss in three-and-half months, as the immediate impact of the reforms fade.

# Investment Banking Updates

## Mergers & Acquisitions

In association with



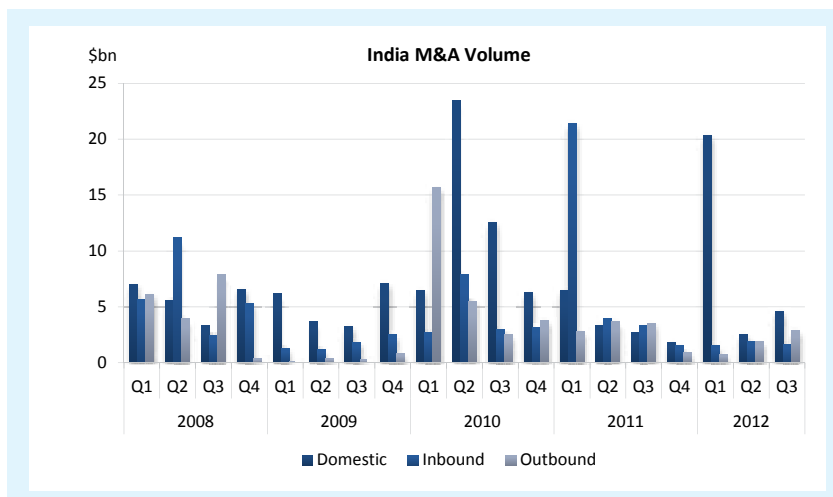
- ▶ **India** ranked as the fourth most targeted nation in **Asia Pacific region** in the first nine months of 2012 with \$32.7bn, down 21% on the same period in 2011(\$41.3bn)
- ▶ India **Outbound M&A** volume reached \$5.6bn in the first nine months of 2012, the lowest nine month level since 9M 2009 (\$800m) and down 76% from the record volume achieved in the first nine months of 2010 (\$23.6bn)
- ▶ India **Inbound M&A** volume stood at \$5.2bn in the first nine months of 2012, down 82% on the \$28.7bn for the same period in 2011
- ▶ Conversely, India **Domestic M&A** volume totaled \$27.5bn in the first nine months of 2012,

up significantly on the \$12.6bn announced in the same 2011 period and marks the second highest nine month level on record after 2010 (\$42.5bn)

- Pushed by the \$9.5bn merger by **Sesa Goa** with **Sterlite Industries/Cairn India/Madras Aluminium/Vedanta Resources** announced in 1Q 2012 in what was the largest India M&A transaction so far this year and the largest India Domestic deal on record

### India Announced M&A Advisory Ranking First 9M 2012

Pos	Advisor	Value \$m	No.	%Share
1	Citi	12,659	8	38.8
2	Morgan Stanley	12,436	12	38.1
3	JPMorgan	11,731	9	35.9
4	Barclays	10,833	7	33.2
5	Goldman Sachs	10,101	6	30.9
6	Credit Suisse	6,927	4	21.2
7	Bank of America Merrill Lynch	6,553	1	20.1
8	Enam Financial Consultants	2,891	10	8.9
9	Ernst & Young	1,873	19	5.7
10	Deutsche Bank	858	3	2.6

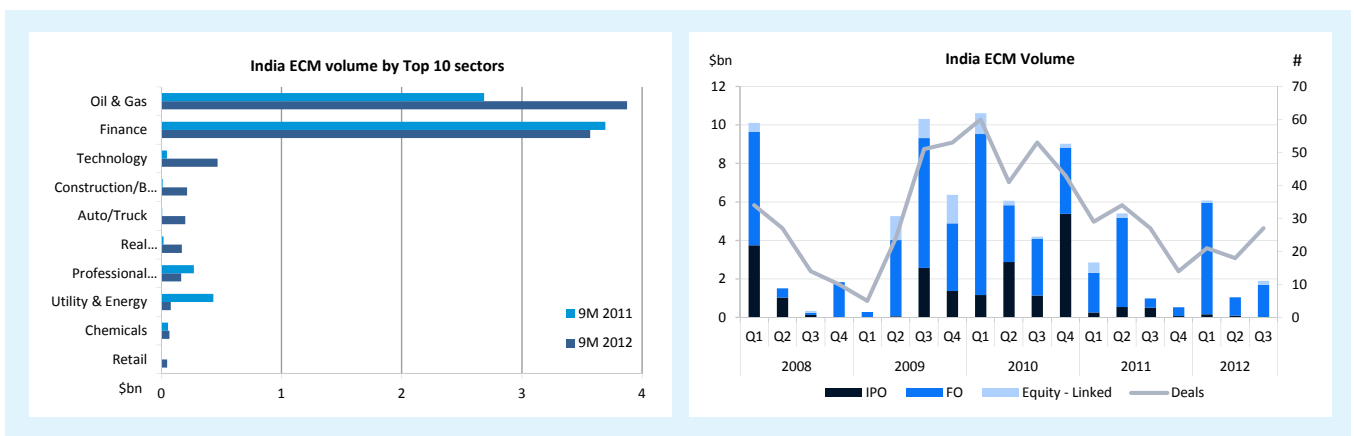




## Equity Capital Markets

- ▶ Indian ECM volume stood at \$9.0bn in the first nine months of 2012, down 2% on the \$9.3bn raised in the same 2011 period
  - Conversely, 3Q 2012 volume totaled \$1.9bn, up significantly on the \$1.0bn raised in 3Q 2011 and also up from the \$1.0bn recorded in 2Q 2012

- ▶ IPO volume reached \$280m in the first nine months of 2012, down from the \$1.3bn raised in the comparable 2011 period and marks the lowest since the nine month low in 2001 (\$50m)
- ▶ On March 2, **Oil & Natural Gas Corp-ONGC** completed a \$2.6bn follow on via bookrunners **Citi, Bank of America Merrill Lynch, HSBC, JM Financial Group, Morgan Stanley** and **Nomura** in what was the largest ECM transaction for India in 2012 YTD and the fifth largest Indian ECM transaction on record



### Top 10 India ECM Deals in 9M 2012

Date	Name	Sector	Deal Type	Deal Value \$m	Bookrunners
2-Mar	ONGC	Oil & Gas	FO	2,584	Citi, BAML, HSBC, JM Financial, MS, NOM
23-Feb	HDFC	Finance	FO	1,927	Citi
25-Sep	Cairn India Ltd	Oil & Gas	FO	929	Citi
29-Jun	Cairn India Ltd	Oil & Gas	FO	362	Citi
27-Jun	Axis Bank	Finance	FO	328	HSBC, GS
8-Feb	ICICI Bank	Finance	FO	298	GS
1-Feb	HDFC	Finance	FO	270	DB
30-Aug	Tech Mahindra Ltd	Technology	IPO	251	JPMC, CS
29-Aug	Jaiprakash Associates Ltd	Construction	CONV	150	Barclays, SCB
14-Mar	Wipro Ltd	Technology	FO	149	Citi, CS, MS, UBS

## Debt Capital Markets

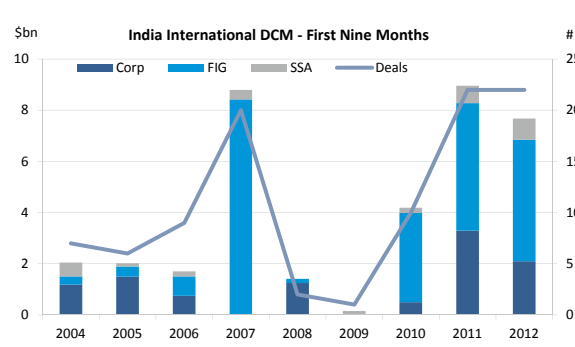
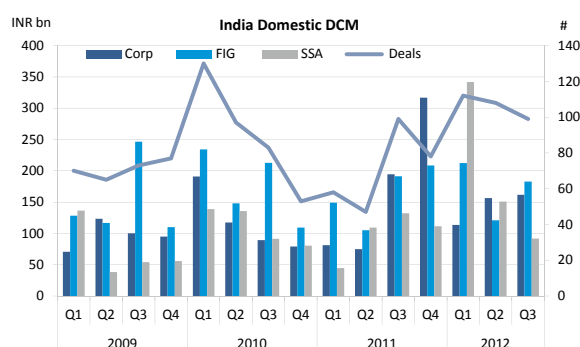
- ▶ **India DCM** volume totaled \$36.7bn via 339 deals in the first nine months of 2012, up 11% on the \$33.0bn raised for the same 2011 period
- ▶ **Corporate IG** and **Agency** bonds account for 49% and 32% of the total DCM volume, respectively with \$17.9bn and \$11.8bn for the first nine month 2012 period
  - **Reliance Industries** led the offshore issuer table for the nine months of 2012 with 20%

share, while Power Finance Corp topped the domestic issuer ranking with a 13% share

- ▶ **India Domestic DCM** volume reached INR1.53tr, up 40% from the INR1.10tr raised in the first nine months of 2011, marking the second highest nine month volume. Deal activity is on a record first nine month high with 316 deals in 2012
- ▶ **International** issuance saw a decrease in volume by 14% to \$7.7bn in the first nine months of 2012 on the \$9.0bn raised for the same period in 2011. Of the total issuance for the nine months of 2012, majority are with a maturity of five years (\$5.0bn) followed by 10 years (\$1.5bn)

### India DCM - First 9M 2012

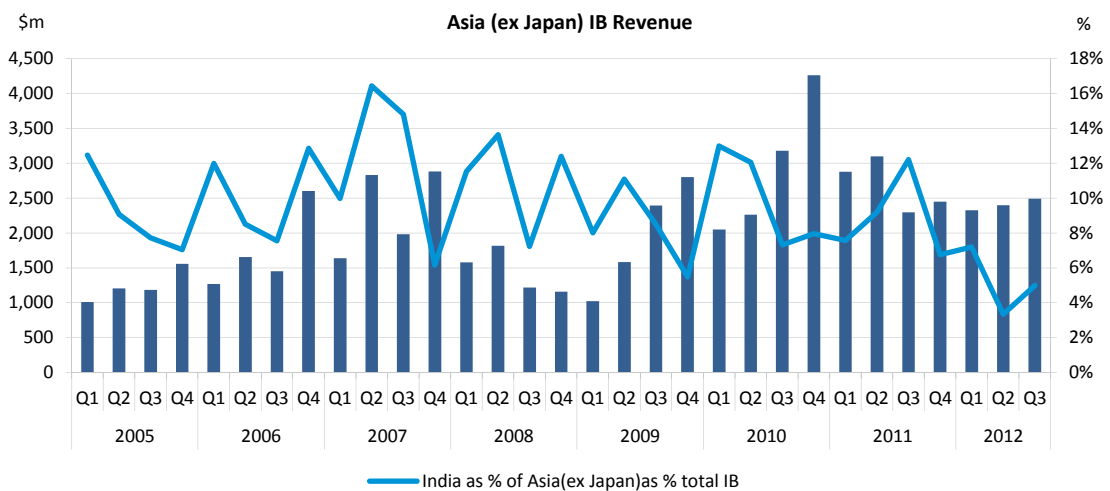
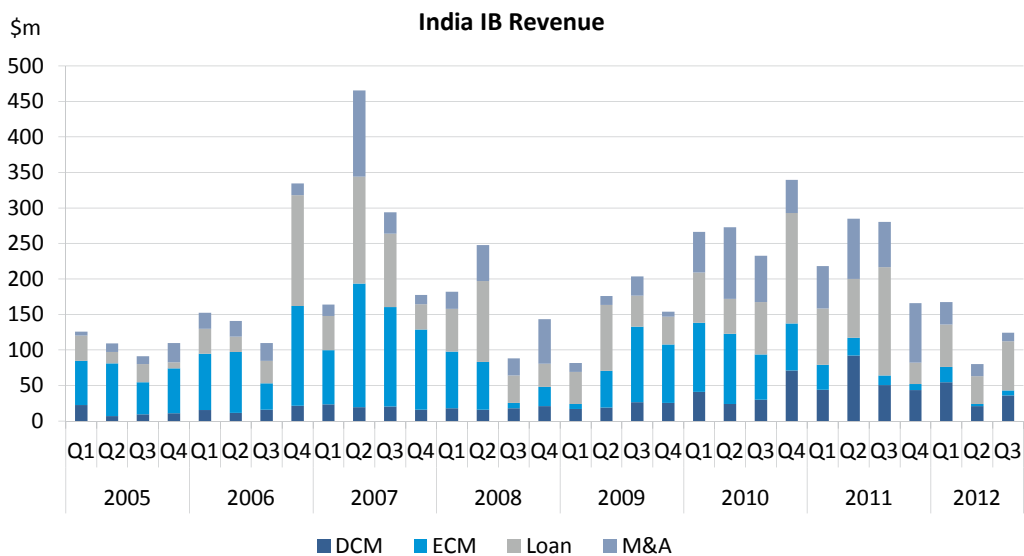
Pos	Bookrunner	Value \$m	No.	%Share
1	Axis Bank	5,048	108	13.8
2	ICICI Bank	4,501	81	12.3
3	HSBC	2,733	53	7.4
4	Standard Chartered Bank	2,459	44	6.7
5	Ak Capital Services Ltd	2,294	62	6.3
6	Barclays	2,277	47	6.2
7	State Bank of India	1,961	22	5.3
8	Trust Investment Advisors	1,926	95	5.3
9	Kotak Mahindra Bank Ltd	1,761	61	4.8
10	Citi	1,583	13	4.3



## IB Revenue

- ▶ **India IB Revenue** has reached \$372m in the first nine months of 2012, less than half the \$783m earned during the same period in 2011 and marks the lowest since its nine month low in 2005 (\$327m)
- ▶ **Loan** fees account for 45% of total India IB revenue in the first nine months of 2012 with \$168m, the highest first nine month share on record

- Despite the record share, revenue at \$168m during the nine month period of 2012, is down from the \$314m earned during the comparable period in 2011 and marks the lowest first nine month level since 2006 (\$89m)
- ▶ **M&A revenue** saw the biggest fall with \$62m in the first nine months of 2012, a 70% drop from the similar period in 2011, and represents the lowest first nine month level since 2009 (\$53m)
- ECM fees saw the second biggest drop (57%) during the same period to \$32m

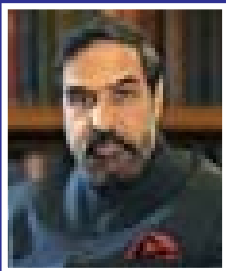




# ASIAN FINANCIAL COOPERATION CONFERENCE

26-27 November, 2012

Hotel Trident, Nariman Point, Mumbai, India



**Anand Sharma**  
Hon'ble Minister  
Ministry of Commerce & Industry



**Fukuda Yasuo**  
Chairman of Board,  
Boao Forum for Asia,  
Former Prime Minister, JAPAN



**Stephen Groff**  
Vice President  
Asian Development Bank



**H R Khan**  
Deputy Governor  
Reserve Bank of India

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## Key Speakers

Anand Sharma, Minister of Commerce & Industry, India  
D K Mittal, Secretary, Ministry of Finance Government of India  
H R Khan, Deputy Governor, RBI  
Jignesh Shah, Founder & Group Chairman, Financial Technologies Group  
Deputy Governor, Thailand  
Deputy Minister of Finance, Indonesia  
Yasuo Fukuda, Chairman, Boao Forum for Asia  
Deputy Minister, Ministry of Finance, Malaysia  
Governor, Singaporean Monetary Authority  
Saito, President, Tokyo Stock Exchange  
Schive Chi, Chairman, Taiwan Stock Exchange  
Zhou Wenzhong, Secretary General Boao Forum for Asia  
Dennis Bracy, CEO, US-China Clean Energy Forum  
Fang Fang, Vice Chairman, Asia Pacific JP Morgan Chase  
Biswajit Dhar, Director General, Research and Information System for Developing Countries (RIS), India

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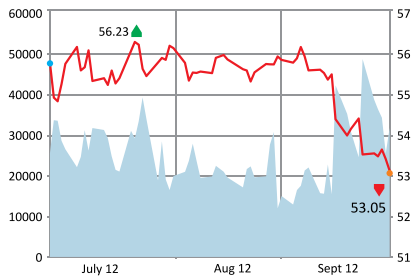
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# Markets Watch



**USD-INR**  
**JULY-SEPT 12**  
**Turnover\* (₹/cr)**  
**1,551,761.30**  
**Volume\* (in lots)**  
**28,09,88,135**



Open: 55.79 | High: 56.23 | Low: 53.0525 | Close: 53.0525 — Price — Volume  
 Currency futures prices from MCX-SX. \*Combined turnover and volume of all exchanges compiled from exchange websites.



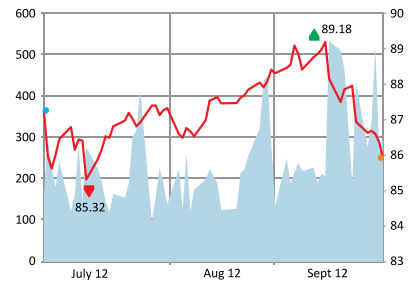
**EUR-INR**  
**JULY-SEPT 12**  
**Turnover\* (₹/cr)**  
**23,763.80**  
**Volume\* (in lots)**  
**34,30,993**



Open: 70.34 | High: 71.46 | Low: 67.37 | Close: 68.5550 — Price — Volume  
 Currency futures prices from MCX-SX. \*Combined turnover and volume of all exchanges compiled from exchange websites.



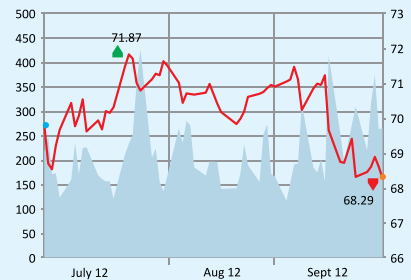
**GBP-INR**  
**JULY-SEPT 12**  
**Turnover\* (₹/cr)**  
**14,996.79**  
**Volume\* (in lots)**  
**17,17,212**



Open: 87.34 | High: 89.18 | Low: 85.32 | Close: 85.9050 — Price — Volume  
 Currency futures prices from MCX-SX. \*Combined turnover and volume of all exchanges compiled from exchange websites.



**JPY-INR**  
**JULY-SEPT 12**  
**Turnover\* (₹/cr)**  
**13,427.65**  
**Volume\* (in lots)**  
**19,10,084**



Open: 70.17 | High: 71.87 | Low: 68.2875 | Close: 68.2875 — Price — Volume  
 Currency futures prices from MCX-SX. \*Combined turnover and volume of all exchanges compiled from exchange websites.

## Market Commentary

MCX-SX USDINR consolidated in the range of 56.26 to 55.11 in the month of June. July and August but fell sharply in the month of September after the ECB outcome, US Federal Reserve's third round of quantitative easing and a series of Economic reforms announced by the Government that sparked a rally in riskier and growth-oriented assets across the board. The US Dollar plunged to its lowest against the Euro in 11 months and the Yen in 7 month; during the month of July, August and September (till 28th September) US Dollar fell around 6.05% against the Indian Rupee. Economic reforms, related to foreign direct investment and disinvestment, are expected to support Indian rupee against the US Dollar in the near term.

With significant announcements and events expected in the current as well as coming months and expected to lower the volatility seen in the last couple of months. Market participant would keep an eye on a number of speeches by the US Federal Reserve and European officials in the days to come along with Economic data which would impart further light on the fate of the US Dollar against its major counterpart. The announcement of bond buying by the US Fed has left most puzzled as officials committed to an open ended buying of \$40 billion of mortgaged back securities per month.

## Outlook

MCX-SX US Dollar hit a low of 52.7225 against the Indian Rupee on September 28, 2012. US Dollar is expected to slip further against the Indian Rupee from these levels. On the downside, immediate support is seen at 52.67 and if the pair breaks and sustains below the given level, then it may test the 52.00 levels in the coming trading sessions, while inability to break the given level may pull the pair again towards 53.27, 54.45 and 55.20..

- Rekha Mishra, Sr. Research Analyst  
 Bonanza Commodity Brokers Pvt. Ltd.

## Synopsis of past events

### Sustainable excellence through customer engagement, employee engagement and right use of technology

4th - 6th September, 2012, Mumbai



L to R- Mr. Lionel Are, Senior Partner and Director and Global Head, Financial Institutions Practice, BCG, Mr. R. V. Kanoria, President, FICCI and Chairman and Managing Director, Kanoria Chemicals and Industries Ltd., Mr. Pratip Chaudhuri, Hon. Secretary, IBA; Chairman, FICCI Banking & Financial Institutions Committee and Chairman, State Bank of India, Dr. D. Subbarao, Governor, Reserve Bank of India, Mr. Alok Kumar Misra, Chairman, IBA and Chairman and Managing Director, Bank of India, Mr. K. R. Kamath, Deputy Chairman, IBA and Chairman & Managing Director, Punjab National Bank

FICCI along with IBA (Indian Banks Association) organised Annual Banking Conference - FIBAC 2012 from 4th -6th September, 2012 at Hotel Trident, Nariman Point, Mumbai.

Dr. D Subbarao, Governor, RBI delivered the Inaugural Address. In his address, he laid stress on Basel III and its implementation. He mentioned that the government would need to infuse Rs 90,000 crore in public sector banks to maintain its current shareholding after the Basel III norms would come into force. On the other hand, the burden could come down to less than Rs 70,000 crore if the government was willing to reduce the shareholding to 51 per cent.

Other eminent personalities who spoke at the conference included Dr. C Rangarajan, Chairman, Prime Minister Economic Advisory Council; Dr. K C Chakrabarty, Deputy Governor, RBI; Mr. Anand Sinha, Deputy Governor, RBI; Mr. H R Khan, Deputy Governor, RBI; Mr. Pratip Chaudhuri, Chairman, FICCI Banking & FI Committee and Chairman, State Bank of India; Mr. Pramit Jhaveri, Co-Chair, FICCI Banking & FI Committee and CEO - India, Citibank; Mr. Luke A Bronin, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, U.S. Department of the Treasury and the CEOs and CMDs of almost

all the public sector, private sector and foreign banks. The conference also witnessed active participation from corporate side as well. To name a few, speakers from corporate side included Mr. A. Subbarao, Group CFO, GMR Group; Mr. Milind Sarwate, Group CFO, Marico; Mr. A. P. Hota, MD & CEO, National Payments Corporation of India; Mr. Sriram Jagannathan, CEO, Airtel M Commerce.

The conference also saw the Release of FICCI-IBA - BCG Knowledge Paper - "From 5 star to 7 star in productivity"

Participation at the conference included both domestic and international representation.

## FICCI and Cavendish Group's Conference on Evolving Dynamics in India's M&A landscape

September 20, 2012 - Mumbai



L to R- Mr. Sidharth Birla, Vice President, FICCI and Chairman, FICCI Corporate Laws Committee, Mr. Ashok Chawla, Chairman, Competition Commission of India, Ms. Vijaya Sampath, Co-Chair, FICCI Corporate Laws Committee and Senior Partner, Lakshmi Kumaran & Sridharan, Mr. Lalit Kumar, Partner, J. Sagar Associates

FICCI organized its first M&A Conference in partnership with the Cavendish Group of UK on September 20, 2012 in Mumbai. The theme for the Conference was 'Evolving Dynamics in India's M&A Landscape' and a Knowledge Paper was released on this theme.

The objective of the conference was to provide a forum to discuss and debate the changing landscape for inbound and outbound investment in India and the European Union (EU) with a focus on mergers and acquisitions and explore avenues for increased co-operation and activity between EU and India for such transactions.

Shri Ashok Chawla, Chairman, Competition Commission of India while delivering the Inaugural Address was hopeful that the next decade would witness a surge of corporate restructuring and there would be substantial M&A activity in various sectors, especially because of opening up of these sectors. He also stated that competition authorities world over recognize the economic rationale of growth; and enforcement of competition law including merger control is actually a tool to create the best possible conditions for firms to do business and the Competition Commission of India also follows

this basic philosophy.

The conference provided an oversight of various issues in M&A including valuation, financing, regulatory, legal, structuring, tax, anti-trust and competition law, listing and open offers with some practical suggestions and solutions to complex problems of multi jurisdictional acquisitions.

The conference brought together experts in the areas of law, regulation, tax and business and was attended by Indian and European business groups, private equity firms, consultants, investment banks, lawyers, tax experts, in house legal counsel and law firms.

## FICCI's 9th Annual Capital Markets Conference

October 12, 2012 - Mumbai

FICCI organized the 9th Annual Capital Markets Conference on October 12, 2012 in Mumbai. The theme for this year's Conference

was 'Developing Indian Capital Markets- the Way Forward'.

In his inaugural address, Mr. U. K. Sinha, Chairman, SEBI urged India Inc. to comply with the minimum public shareholding requirement within the stipulated timeline of June 2013 and said that SEBI would consider de-listing as an option for companies with genuine difficulties (on a case-to-case basis). He pointed that in order to attract FII money, it was important to improve corporate governance practices on a long-term and sustained basis. He also encouraged the mutual fund industry to go beyond top 15 cities to get sustainable business.

Other senior dignitaries who spoke at the Conference include Mr. H. R. Khan, Deputy Governor, RBI, Mr. Mohd. Haleem Khan, Secretary-Disinvestment, Ministry

of Finance, Dr. Anup Wadhawan, Joint Secretary-Capital Markets, Ministry of Finance, Mr. D. K. Mehrotra, Chairman, LIC of India, Mr. David Rule, Director-International UK Banks, Financial Services Authority, U.K. and other leading national and international experts.

The Conference also saw the release of a Knowledge Paper on 'Developing Indian Capital Markets- the Way Forward' that laid down the roadmap for developing a strong and vibrant capital market in India.

The Conference witnessed senior level representation from the industry, financial institutions, FIIs, brokers, banks, stock exchanges, merchant banks, financial analysts, fund managers, investors, economists and academia.

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L to R: Mr. Naveen Tahilyani, Senior Partner, McKinsey & Company; Ms. Naina Lal Kidwai, Senior Vice President, FICCI; Mr. U K Sinha, Chairman, SEBI; Mr. Sunil Sanghai, Chair, FICCI's Capital Markets Committee and M.D., Head of Global Banking- India, HSBC and Mr. Anup Bagchi, Co-Chair, FICCI's Capital Markets Committee and M.D. & CEO, ICICI Securities

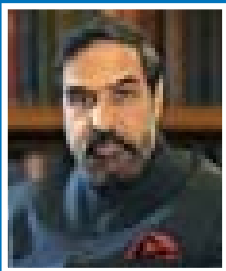




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D K Mittal, Secretary, Ministry of Finance Government of India

H R Khan, Deputy Governor, RBI

Jignesh Shah, Founder & Group Chairman, Financial Technologies Group

Deputy Governor, Thailand

Deputy Minister of Finance, Indonesia

Yasuo Fukuda, Chairman, Boao Forum for Asia

Deputy Minister, Ministry of Finance, Malaysia

Governor, Singaporean Monetary Authority

Saito, President, Tokyo Stock Exchange

Schive Chi, Chairman, Taiwan Stock Exchange

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Email: [finance@ficci.com](mailto:finance@ficci.com); [rosy.jose@ficci.com](mailto:rosy.jose@ficci.com)

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# Fintainment Section

## Crossword

**Notes:**

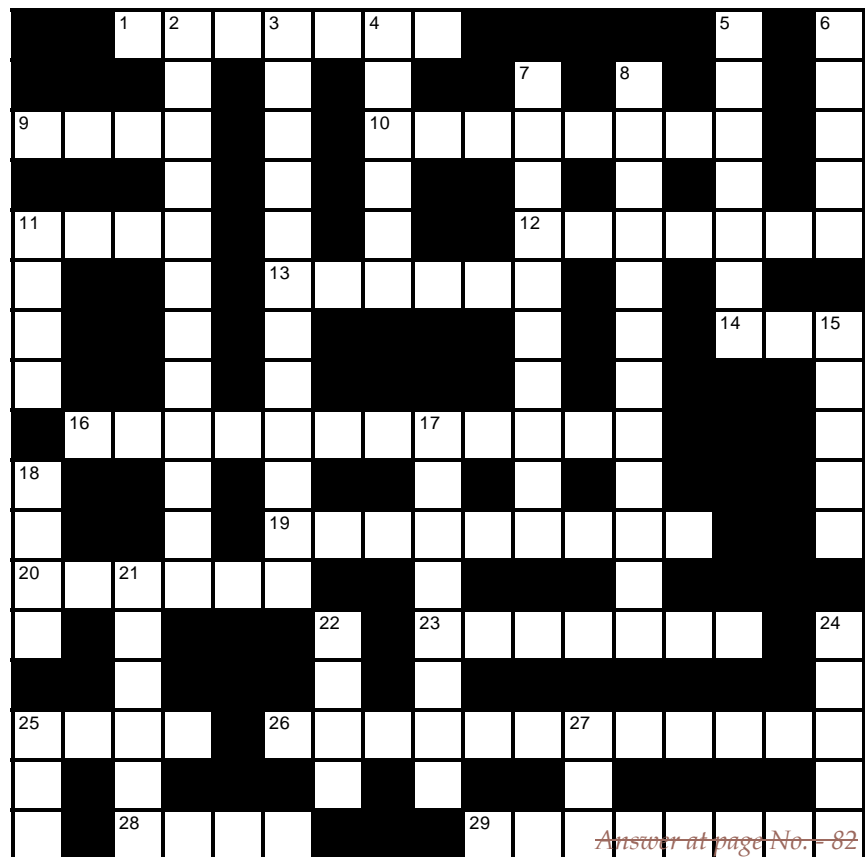
Clues ending in “?” imply play on words.

Digits in bracket at the end of the clue indicate number of letters in each word of the answer.

Clues that have an acronym or “abbr.” or “in short” imply that answers are abbreviated.

**Across**

- 1 Repo, on Dalal Street (3,4)
- 9 Analyst call, perhaps (4)
- 10 Nobel Prize winning locale in the news (8)
- 11 Much debated recent tax provision for FIIs (4)
- 12 Regular payment stream (7)
- 13 Trust, in a way (6)
- 14 Grameen Bank, for e.g. (3)
- 16 Bid process used in Google’s initial public offer (5,7)
- 19 \_\_\_ of scale (9)
- 20 February feature, usually (6)
- 23 Top line (7)
- 25 Analyst call, perhaps (4)
- 26 A ready wit is her \_\_\_! (5,2,5)
- 28 “\_\_\_ comes from not knowing what you are doing”: Warren Buffett (4)
- 29 24 of 24/7, in math (8)



*Answer at page No. - 82*

**Down**

- 2 Investment banker’s hook, for an issuer (12)
- 3 Company’s March statement (7,5)
- 4 This book has leaves? (6)
- 5 Cost of an option (7)
- 6 Car race (5)

- 7 “Take a break” event, for a banker (10)
- 8 Accountant’s principle to make a company immortal (5,7)
- 11 Gold-edged (4)
- 15 Share offer (5)
- 17 It needs a consideration (8)
- 18 It’s outstanding? (4)
- 21 Casino or stock market worker (6)
- 22 It has the X-factor? (4)
- 24 Triangular traffic sign on Wall Street, perhaps? (5)
- 25 GIC or QIA, for example (3)
- 27 MF measure (3)

## Financial Fundas

**Santa Claus Rally** - A Santa Claus rally is a rise in stock prices in the month of December, generally seen over the final week of trading prior to the new year. The rally is generally attributed to anticipation of the January effect, an injection of additional funds into the market, and to additional trades which must, for accounting and tax reasons, be completed by the end of the year. Another reason for the rally may be fund

managers “window dressing” their holdings with stocks that have performed well. The Santa Claus rally is also known as the “December Effect.”

**Champagne Stock** - A champagne stock is typically one that has at least doubled or tripled in value in a relatively short period, creating a huge profit for the company’s shareholders. The term is used because individuals who hold such stocks will often order

an expensive bottle of champagne to celebrate their good fortune.

**Eat Well, Sleep Well Strategy**- Investing in high-risk, high-reward securities will offer you the potential to eat well, but the risky nature of these securities might prevent you from sleeping at night. By contrast, investing safely means that you will sleep well, but the low rate of return may keep you from eating well.

Source: Investopedia.com

## Quiz

London was the host for the 30th Olympic Games held in July and August 2012. Here’s a quick quiz to refresh association of finance with the Olympiad.



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- Name the former British investment banker who was the chief executive of the London Organizing Committee of the 2012 Olympic Games?
  - Paul Deighton
  - Sebastian Coe
  - Bob Diamond
  - Danny Boyley
- News reports indicate around USD 14 billion was spent on hosting the 2012 Olympic Games. In contrast, what was the estimated spend on the medals awarded during Olympics 2012?
  - Between USD 10 Mn to 50 Mn
  - Less than USD 2 Mn
  - Between USD 75 Mn to 100 Mn
  - More than USD 100 Mn
- Which of these is the benchmark index of the country hosting the 2016 Olympic Games? .
  - Merval
  - Bolsa
  - IBEX
  - Bovespa

## Jumble

Solve the 5 jumbled letters to form 5 financial terms. The circled letters in these terms can be rearranged to form a popular financial buzz word(s) hinted by the clue.

### Question. 1

- a. SLFIAC    ○○□□○□
- b. IOTONP    ○□○□□□
- c. NBOD    ○○□□
- d. LTIG    ○○○□
- e. TROEN    ○□□○□
- f. Colloquial term to describe important financial institutions: \_\_\_\_\_ (3, 3, 2, 4)

### Question. 2

- a. NEICAFN    ○□□□○□
- b. LIRBO    ○□□□○
- c. SAHRE    ○○○□□
- d. QHCUEE    □○□□□□
- e. RASEDP    ○□□□○□
- f. An erroneous order on an exchange could result in \_(5, 5)

### Question. 3

- a. CDOINUTS ○○□□□□□□
- b. EGRAVAE ○○□□□□○
- c. VREUENE □○○□□□□
- d. TTRNSIEE ○□□□○□□□
- e. TCOKS    ○○□□□
- f. Famously described as financial weapons of mass destruction: \_\_\_ (11)

## Review of Financial Apps

### 1. ScoreBank

The app helps you find banks in India near your current location, around a specific address  
 You can also get quick access to the details of a branch like their phone number, directions, and working hours  
 Available on iPhone

### 2. World Bank DataFinder

Accessing data on global development indicators from the World Bank Group  
 Include topics such as Economy, Trade, Environment, Population, Infrastructure, Private Sector Development  
 Compatible with iPhone, iPod and iPad

### 3. Today in Private Equity

Designed for private equity professionals, venture capitalists, entrepreneurs, investment bankers, as well as traders.  
 News on private equity, venture capital and early stage growth equity industries.  
 Includes bloggers, opinion leaders, videos, articles

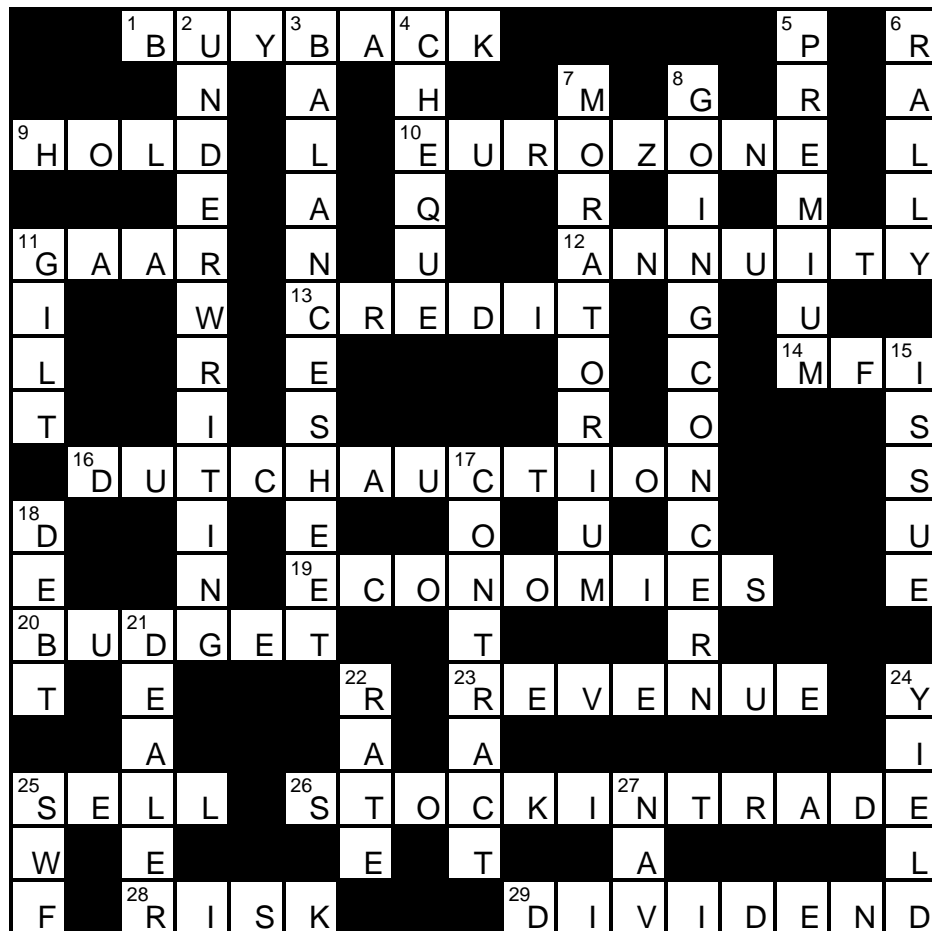
#### Fintainment Section Credits



**Mangesh Ghogre**

Mangesh Sakharam Ghogre, an alumnus of VJTI and NMIMS, is a professional investment banker with a passion for equity markets and words alike. He is a cruciverbalist and an international crossword constructor with crosswords published in Wall Street Journal, Los Angeles Times and recent acceptance by The New York Times. He has the unique distinction of being the first and the only constructor from India to be invited by the New York Times to be a judge at the prestigious American Crossword Tournament. He is also a freelance writer and his columns have been published in leading dailies like The Economic Times, The Hindu Business Line, Deccan Herald and The Times of India - including its much-followed Speaking Tree column. His published work is available at [www.mangeshghogre.com](http://www.mangeshghogre.com)

## Solution of Fintainment Section



### Answers of Quiz

Answer: 1 - a

Answer: 2 - b

Answer: 3 - d

### Answers of Jumble

Answer 1: a - FISCAL, b - OPTION, c - BOND, d - GILT, e - TENOR, f - TOO BIG TO FAIL

Answer 2: a - FINANCE, b - LIBOR, c - SHARE, d - CHEQUE, e - SPREAD, f - FLASH CRASH

Answer 3: a - DISCOUNT, b - AVERAGE, c - REVENUE, d - INTEREST, e - STOCK, f - DERIVATIVES



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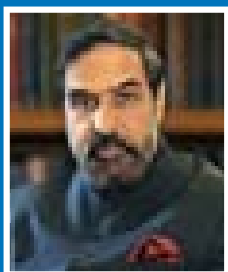
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 Deputy Minister, Ministry of Finance, Malaysia

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