FINANCIAL SECTOR REFORMS IN INDIA

Dr. G. Ramesh Babu*

ABSTRACT

Liberalization, privatization and globalization are becoming popular words in the digital world. The globe is rotating on the flow of money. Money is always traveling for profit as a destination within a stipulated period of time. India's liberalization policy has gained importance in the context of global business scenario. Modern economics is highly influenced expansion and diversification. The revolution in information technology has explored many avenues for inventions of new financial products and services.. Reforms are not accidental. Financial sector reforms have the main objective to develop transparent, autonomous, world standards, competitive and market oriented financial system. However, the reforms or research work should be useful to the layman. India, need for a disciplined and predictable monetary, fiscal and debt management policies for the success of financial sector of the economy. The reforms aim is to correct and eliminate financial repressions and to transform the system as hurdle free. The major reforms related to "resident banking system, development of institutions and monetary policy". The central government appointed two committees to look after the various issues of the reforms. One exclusively on financial inclusion, under the chairmanship of C.Rangarajan and another under the chairmanship of Raghuram G Rajan. The banking sector has to fulfill credit target of 10% to weaker sections. The target system requires a strong monitoring system, well defined objectives, coordination between policy making and implication machinery, linkages between target achievement and incentives. Target achievement and incentive system occupies a dominant role in the corporate sector. The committee did not suggest about the achievement and incentive system. Further the committee emphasized on "advisory services to the poor, training the borrower, and bringing attitudinal change in the branch staff." The poor people in India are interested "wage for livelihood rather than credit for self employment". Hence there is a scope for huge demand for small savings. Financial inclusion means the process of access to financial services, timely, adequately credit needed by weaker sections low income groups at an affordable cost. Even the developed nation's populations do not have access to financial services in ITALY (22%) AUSTRALIA (14%) U.K (11%) and EUROPEAN UNION (9%).according to the committee 73% of Indian households do not have access to bank account. marginal formers, agricultural laborers artisans members of the schedule tribes are the worst victims. As per the R.B.I identification 256 districts in India fails to provide the credit facility to the population.

Keywords: *Reforms, Fiscal Management, Monetary Policy, Financial Inclusion, Foreign Banks, Small Savings*

*Head, Department of Commerce, S.S.R.J. College, Khammam, A.P., India.

"You can have brilliant ideas, but if you can't get them across, your ideas won't get you anywhere"

- LEE LACOCCA

Liberalization, privatization and globalization are becoming popular words in the digital world. There will be a misbelieve that liberalization will exploit the common man. Privatization do harm to the society. Globalization may help to capture the wealth by capitalists. However poverty is the main hurdle to the developing nations. The creation of wealth could be done through powerful weapons such as "CAPITAL, TECHNOLOGY AND SKILLED MANPOWER". All these weapons can be applied to fight poverty with the help of these policies. Development of a nation is based on intellectual process rather than financial muscle. The globe is rotating on the flow of money. Money is always traveling for profit as a destination within a stipulated period of time. India's liberalization policy has gained importance in the context of global business scenario. Modern economics is highly influenced expansion and diversification. The revolution in information technology has explored many avenues for inventions of new financial products and services.

Reforms are not accidental. Financial sector reforms have the main objective to develop transparent, autonomous, world standards, competitive and market oriented financial system. However, the reforms or research work should be useful to the layman. India, need for a disciplined and predictable monetary, fiscal and debt management policies for the success of financial sector of the economy. The reforms aim is to correct and eliminate financial repressions and to transform the system as hurdle free. The major reforms related to "resident banking system, development of institutions and monetary policy". The central government appointed two committees to look after the various issues of the reforms. One exclusively on financial inclusion, under the chairmanship of C.Rangarajan and another under the chairmanship of Raghuram G Rajan. The two committees submitted their report to the government in 2008. Both the committees have been reported that there is a strong need for financial inclusion. Financial inclusion is a process of making formal financial services accessible and affordable to all. Financial services do not mean the provision of credit alone, but the provision of all other services, especially savings, insurance and remittance facilities. The quality of lifestyle of Indian citizen should be comparable with the on par level of Americans, Japanese or Germans.

The Rangarajan committee defines financial inclusion as "the process of access to financial services and timely and adequate credit needed by the vulnerable groups such as weaker sections and low income groups at an affordable cost". It identifies the existing system like the District Level Consultative Committee and the State Level Bankers committee for implementation of the state rural financial inclusion plan and the national rural financial inclusion plan. It suggests constitution of of national mission on financial inclusion. The committee does not throw any light on non- fulfilling of credit to weaker sections.

The banking sector has to fulfill credit target of 10% to weaker sections. The target system requires a strong monitoring system, well defined objectives, coordination between policy making and implication machinery, linkages between target achievement and incentives. Target achievement and incentive system occupies a dominant role in the corporate sector. The committee did not suggest about the achievement and incentive system. Further the committee emphasized on "advisory services to the poor, training the borrower, and bringing attitudinal change in the branch staff." The poor people in India are interested "wage for livelihood rather than credit for self employment". Hence there is a scope for huge demand for small savings.

The small savings in Indian rural people is based on chits. The chit fund system in India is entirely dominated by unorganized system. There is a popular method of finance among the rural people is contribution towards small chits. The small chits are run by the individuals and common man is facing a lot of problems in getting of their hard earned money. The chits provide better returns than bank deposits. Hence the commercial banks, regional rural banks should be permitted to run the chit finance system and also provide a facility to deposit their chit amount with the banks. The banking sector in India should be focused on fee based services rather then fund based services. The chit commission is also biggest revenue to the banking sector. The international school of business also conducted a research programme on chit financing and found that, it provides better returns to the common man. The lay man is making small savings for different purposes like, children education, marriage occasions, housing constructions etc.

The CRC has rightly made a recommendation to allow more local area banks. It has taken a bold step in bringing out the demand side elements of financial inclusion like "low productivity, no local value addition, poor market linkages, risk in agricultural activity, lack of health, education and training system, unorganized nature of the excluded, absence of effective risk mitigation system in agriculture and non friendly market for farmers to sell their produce".

The committee appointed under the chairmanship of Raghuram G Rajan to look after the reforms. The committee stated the financial inclusion "the most important financial services for the poor are vulnerability reducing instruments. These include savings, remittances, insurances and pension needs". The layman needs access to financial services for contingency planning and risk mitigation, long term savings, savings for old age, purchasing insurance products for insurable contingencies. The lay man is worrying about his old age situation. Therefore the government is also should think about social security. The combination of financial inclusion and social security provision may entirely change the economic system. The committee observed that the household typically need access to credit for livelihood creation as well as consumption and emergencies. It finally stated that "an exclusive focus on credit can lead to undesirable consequences such as over-indebtedness and inefficient allocation of scarce resources" the committee stressed about the mandated branching in rural areas. It stated that the financial sector does not ignore the poor because of biases but because of a high transaction cost. The committee is correct to comment that the interest rate ceiling reduces banker's desire to service the truly excluded: higher fixed cost and higher perceived credit risk imply a higher not lower interest rate. According to the report (a) a difference from the market rate is often charged through hidden fees and bribe, the very poor who have the least ability to pay these charges get excluded, a plethora of bureaucratic norms and paper work is imposed to check corruption, which reduces the flexibility and attractiveness of credit. Therefore the committee envisions a new structure for financial inclusion which is efficient, innovative and cost effective and considers financial services to the poor as a business opportunity rather than charity.

Several researchers have defined the financial inclusion in several ways.

1 ANDERLONI AND CARLUCCIO: "services that do not have an impact on the household's budget, but represent at the same time essential elements for the individual's life, subsistence ,security and participation to the economic and social life"

2. Molyneux "in ability of some societal groups to access the formal financial system"

3. Sinclair: "the inability to access necessary financial services in an appropriate form"

Anderson observed that the following are the main causes for financial exclusion

A) geographical exclusion (non existence of branches)
B) access exclusion (restricted access due to banks risks)
C) Condition exclusion (condition related to products failing to meet needs)
D) Price exclusion (charges are very high)
E) Marketing exclusion (strategetic exclusion)

F) Self exclusion (some people refuse to approach banks assuming that loans will not be given)

Financial inclusion means the process of access to financial services, timely, adequately credit needed by weaker sections low income groups at an affordable cost. Even the developed nation's populations do not have access to financial services in ITALY (22%) AUSTRALIA (14%) U.K (11%) and EUROPEAN UNION (9%).according to the committee 73% of Indian households do not have access to bank account. marginal formers, agricultural laborers artisans members of the schedule tribes are the worst victims. As per the R.B.I identification 256 districts in India fails to provide the credit facility to the population.

Monetary policy occupies an important role in overall development of the Indian economy. It deals with the management of interest rates, supply and demand side of capital, consumption, and spending patterns. It involves in setting bank reserves or short term policy to obtain desired objectives. It is involved in price stability and ensures adequate flow of credit to the productive sector to growth

4. Bhattacharya and ray (2007) attempted to empirically examine "The impact of monetary policy shocks on prices and output using a measure of the monetary policy stance derived from the detailed reading of policy announcements during the period 1973 to 1998".

5. Mohan (2005) indicated, "Some incoherent association between growth in monetary aggregates and inflation outcomes from cross country experience. The role of interest rates as a prosy for monetary policy stance has also several limitations".

6. Ma and Mc cauley (2007) observed "that there is some kind of international arbitrage; nominal interest rates in one country will be linked to world interest rates, expectations of devaluations and risk premia".

7. Aizenman (2008) found that, "exchange rate stability, financial integration and monetary independence, have converged for developing countries. These countries have converged towards managed exchange rate flexibility buffered by sizeable international reserves holdings, enabling the retention of monetary autonomy even as financial integration proceeded".

8. Herman (2009) observes that, "the bulk of the empirical evidence on the efficiency of capital controls shows that the area where capital controls have been most successful is in providing more autonomy for monetary politics and altering the composition of capital inflows, while success on reducing the volume of inflows and reducing exchange rate pressures has been mixed".

9. Arun Muhammad (2009) found that, “the grameena bank’s micro credit programme has been recognized internationally as a successful model. It has been become an integral part of development thinking and has earned global attention as a new form of banking. It created a good opportunity for expanding the market for finance capital, there by ensuring its spectacular success. However, it failed as a tool for poverty alleviation and empowerment of women”.

10. The tripartite meeting on micro finance in Lyon, France, UNCTAD pointed out that, “The micro credit phenomenon has revealed the existence of a huge potential market, profitable yet. Largely untapped an estimated 500 million micro entrepreneurs and their families, until now largely excluded from a financial system. These 500 million micro enterprises represent a potential credit market of 100 billion and even larger market for savings and insurance institutions such as Bancosol in Bolivia and K-Rep in Kenya boast better profitability rates than some of the world’s biggest and best banks. A movement initiated about 20years ago, microfinance is becoming an industry making its way into the mainstreams financial system”.

11. Harford pointed out that, “Micro finance institutions transformed from charities to profitable companies through hugely successful initial public offerings”.

12. World Bank stated, “integrate NGO’s with commercial finance market by (a) developing an appropriate regulatory framework for the financial operations of the NGO sector. (b) Encouraging large NGO’s to establish themselves as banks. (c) Encouraging whole saving of credit to established NGO’s and (d) using smaller NGO’s as brokers to mobilize self help savings groups”.

13. Hague noted that, “the number of borrowers member were 20.26 million at the end of 2004, of which 14.30 were active out of which 70.36% of total borrowers in end of 85.66% of active borrowers were with the big before GB,BRAC association for social advancement (ASA) and proshika. And there are only 10 NGO’s who have been more than 50000 borrowers, 40 more have between 10000 and 50000.,the rest, the over while majority of the NGO-MFIS are small having less than 10000 members”.

14. Yunus stated that, “ I believe that, government: as we know it today, should pull out of most things except for law enforcements and justice, national defence and foreign policy and let the private sector, a grameenaised private sector a social consciousness driven private sector, take over their other functions”.

15. Bateman found that, “the foreign owned commercial banks since 2001 have massively discovered micro finance. From almost zero in 2001, the commercial banks now channel 22% of their total loan portfolio through highly profitable micro finance programmers

amounting to almost 12% of gross domestic product. So the country in now check full of traders, kiosks, shops, street traders and subsistence farms. The base of the economy is quite simply being destroyed".

16. Muhammad younus stated, "As a thumb rule I would say that an MCB should try to keep the interest rate within 5 to 10% points above the commercial rate. If it goes above this limit, it would be entering the money lender's world, leaving the micro credit world behind".

The RBI announced for the presence of foreign banks in India in 2005. The foreign banks can be permitted in India in two phases. In phase-I 12 new branches existing will be permitted. In this phase acquisition of private banks would be permitted by only in private sector banks identified for restructuring and that too in a phased manner. In phase II, the commencement from April 2009, foreign banks could contemplate merges and acquisitions with private banks, subject to a ceiling of 74%.the entering of foreign banks in India will show impact on three elements, "access to financial services, efficiency and provision of credit". In many of the countries, they have foreign bank presence. The World Bank's global development finance report notes that, a higher foreign bank presence is more common in central Asia, Africa and Latin America.

There is a strong argument infavour of a faster opening up to foreign banks to meet the objectives such as financial deepening, improved efficiency, financial inclusion, promoting agriculture and development of small and medium enterprises. The flip side of the other side of coin is foreign banks may create some problems to our economy. The presence of foreign banks may not only bring financial resources but also transmission of shocks from international financial systems. They may weaker our monetary policy due to bringing of large pool of financial resources. There will be radical changes in money market to basic banking amerities system. The foreign banks may throw a challenge to our regulation system. Risk related and important decisions are taken by host country, the implementation will be carried by the branches locally china, Vietnam, South Africa, Thailand, philippiness, and turkey they suggest that a high foreign bank presence is by no means a precondition for rapid economic growth. There will be much competition between foreign and Indian banks. Financial sector needs more intellectual process rather than vastly available resources. Fund is a scared commodity; it should be utilized with intellectual process in an innovative way. Hence success can be achieved.

CONCLUSIONS:

Currently, a large number of empirical studies are available on the economic effect of financial sector reforms. The global organizations, policy analysts, academics publishing these studies are, therefore supposed to play an important role in providing inputs to further discussions of the subject. This paper has attempted to critically evaluate different assessments in various situations. A financial inclusion is the basic problem before policy makers and analysts. However, the Indian economy is based on rural purchasing power. We should think about to boost up the rural economy rather than financial inclusions. A strong growth in rural economy economy will definitely helpful for further development. The rural economy is based on agriculture sector. The agriculture in India is an adventurous task. It depends upon monsoon. However, this uncertainity may be avoided through interlinking of rivers. It is a merge project, which requires rs.15, 00,000 crores of investment will clear all hundles of our agricultural sector. The negligence of agricultural sector invites all other problems.

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