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Quarterly Journal of the Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies

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From the Editor's Desk

The global growth is showing signs of improvement in 2014, even though there are risks to this outlook. While growth in advanced economies may improve, recovery in the emerging market economies is expected to be slow. Uncertainty regarding the pace of tapering of quantitative easing by the US remains a major source of risk for India.

The general economic situation was assessed to be weak with risks to growth persisting and no green shoots in sight. While the industrial sector has stagnated for quite some time, the services sector growth has decelerated below 6.0 per cent. The construction sector was most severely affected within the services sector. With weakness in both industry and services, with the exception of export-oriented entities, It is expected growth to be led by agriculture in the near-term. They is concern over the power situation in the country, which needs to improve for industrial growth to pick-up.

It is believed that India is not an outlier in terms of inflation – inflation rate remains high in several other emerging economies such as Brazil and Turkey. Following the sharp correction in vegetable prices, headline inflation has already moderated and may come down further if food prices continue to decline.

On the external front, tapering of quantitative easing by the US remains a major source of risk. While uncertainties for India might have diminished, fundamental risks remain and if growth decelerates further, it may trigger some more capital outflows.

It is in this backdrop India is going to have its next election in 2014. L e tus all hope for the best.

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Incubating the Sovereign Yield Curve – Lifeline of Debt Markets

*V. Shunmugam**

Investors tend to chase returns with best possible protection to capital at a time markets are loaded with risks of rare types. From Vanguard to Blackstone, Barclays to Deutsche bank, debt has been the major play in their recent investment decisions given better risk adjusted returns from debts in the recent times. No wonder that the share of debt capital market (DCM) revenues to global investment banking (IB) revenues (33%) during 2012 was the highest since 1998 (34%), according to Dealogic. Thanks to the well developed, transparent, and liquid (sovereign and corporate) debt markets with a wide basket of cost-effective instruments to manage rate and credit risks, investing in debt instruments in developed economies is now a novice's play as far as investors are concerned. On the other hand, as the equity capital does not provide optimal economic conditions, continuing flow of debt capital would keep enterprises well lubricated if the markets for debt capital are transparent, efficient, and liquid. Healthy coexistence of debt and equity markets would enable businesses to thrive on dynamic debt-equity ratio based on the business cum interest rate cycles and their maturity.

As risks proliferate in markets, existence of an efficient and transparent debt market with cost-effective intermediation would go a long way in nurturing growth aspirations of businesses meeting investor expectations. Yet, availability of a benchmark reference is critical to the development of debt market in any give economy. The major components in determination of the price i.e. yield curve in the debt markets remain the maturity, borrower's credit worthiness, and inter-temporal choices in collective resource allocation reflected in time varying rates. Hence availability of standardized debt instruments seamlessly spread over various maturities traded in efficient markets that could assimilate information to determine borrowing costs is critical to the development of yield curve (interest rates structure across varying maturities) from a temporal perspective. To start with, markets would need a well developed temporal curve for a relatively credit risk-free sovereign instrument and spreads between the corporates and the sovereigns can better guide development of markets for corporate bonds as well.

The average daily outright transaction in secondary market for government bonds is just about half a percentage point of more than Rs. 25 lakh crores outstanding. At any given

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time, significant gaps in maturities of available government bonds results in visible breaks in the yield curve. Also liquidity concentration in too few securities minimizes the efficiency of the existing yield structure. Together it prevents development of effective arbitrage opportunities. As a result, the corporate bond markets whose development is contingent upon the existence of a robust sovereign yield curve continue to remain restricted with a hand full of participants, wherein the lenders inordinately remain the same making the issuance process reflective of a 'syndicated loan'. Current average daily secondary market transactions in corporate bonds as per the reported volumes on exchanges is better than the sovereign bond market at 1.5 percent of the current estimated outstanding of Rs 1.6 lakh crores. Existence of a sovereign yield curve would further boost the transaction velocity in corporate bond markets.

The annual transaction velocity of 346% in the corporate bond markets compared with 135% for G-Secs despite the higher outstanding is also reflective of the current drawbacks in market practices such as predominance of hold till maturity (HTM), high SLR requirement, lack of adoption of advanced accounting practices, lack of demand for and hence the virtual absence of market based tools of risk management. In short, low trading activity and hence the low efficiency of price discovery leading to a cob-web. The resultant opacity has also added to risks than being mopped out by those with appetite. It significantly affects capital flows when risks proliferate in resonance with sectoral or industry business cycles, economic cycle and with the triggering of low-probability-high-impact events. Cutting debt markets out of this cob-web and putting the market and hence the economy on a high growth path would need a slew of policy and institutional changes focused on development of sovereign yield curve to start with.

Efforts of successful Asian nations such as Malaysia and Korea suggest that existence of well developed sovereign bond markets would provide for healthy development of corporate debt markets. To make it happen, it is essential that fiscal financing happens through standardized instruments spread across varied maturities sold through multi-price auctions strictly adhering to a pre-announced schedule. Secondly, enabling these through transparent electronic platforms with easier access to retail investors will increase supply of tradable bonds besides strengthening information flow. As the Electronification of the auctioning system had already been completed, the logical next step would be to liberalize the secondary market and the reverse/repo window. Fourth, setting up of independent bond pricing agencies mandated with the responsibility of providing access to daily prices for various government securities would go a long way in enriching participation on the lines of South Korea and Malaysia. Lastly, efforts shall be made to improve the quality and timeliness of information by means of periodic publication of fiscal data and through regular interaction of the central bank with key market stakeholders. Efforts should also be made to make available all crucial economic information through a central agency entrusted with the task.

Reforms in treasury management functions and regulations governing Insurance industry and pension/ provident fund regarding investment and risk management in debt instruments would go a long way in improving tradable supplies. Consolidation of the outstanding into a few benchmark standardized government securities in terms of coupon rates across various maturities would anchor the process of formation of a seamless sovereign yield curve while augmenting liquidity. Such a benchmark yield curve would not only provide stakeholders with temporal arbitrage opportunities but would also aid in formation of efficient spreads enabling cost effective corporate bond issuances. Thus the existence of a vibrant sovereign yield curve would help in efficient expectation formation in terms of return, credit risk, inflation and hence the rational choice in allocation of scarce capital. Vibrancy of this benchmark will determine the efficiency of economic decision making in the underlying real economy and that of each individual business that contributes to its GDP.

Way To Financial Freedom

*Mehrab Irani**

Abstract

The world is moving forward technologically but we humans are moving backwards financially. We may have all modern facilities like online banking and investing, credit and debit cards, access to financial information, easy loan facilities but our financial knowledge is diminishing. Today, we see young educated people earning very good income but then not able to protect their money from financial predators, they pay everybody like the government, banks, electricity bills, telephone bills, children school fees etc but forget to pay themselves via surplus budget, don't know when to cut spending and when to spend to get rich, have no protection in the form of financial insurance, are not aware of the difference between saving and investing, buy liabilities mistaking it to be assets with negative leverage which puts them in the web of unnecessary avoidable recurring expenses which then sadly makes them "slaves of money" for life – wage slave of the employer, tax slave of the government and loan slave of the bank.

Let us embark on an incredible journey towards understanding the "10 unique Financial Principles" as well as appreciate the "rules of money" which will free us from the shackles of money – forever. Let us move from financial slavery to financial nirvana!

Introduction

Today we see lot of problems around the world – the US economic slowdown, European debt problems, even slowdown in many of the fast growing BRIC and other Asian countries and back home in India we are grappling with our own issues like slowing growth, rising stubborn inflation, high policy interest rates, elevated levels of long term rates, currency volatility, twin deficits etc. There are lot of experts and commentators who keep talking on these macro factors. Rather than talking at a macro level, I thought it apt to address these problems at a micro level. There are lots of misconceptions and mistakes in connection with money, finance and investments which we humans have at an individual level. And when we same humans represent at a corporate, society or government, we just compound those problems which results in serious long term implications for global economics and financial markets, one of which we are witnessing currently around the globe.

This paper takes you on a liberating journey from financial slavery to

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financial freedom. It articulates 10 unique commandments for wealth creation and wealth preservation which lead to financial freedom. Step-by-step it helps you fully understand money and it's fascinating, elusive behavior, including the best ways to earn, invest, protect, budget, save, spend and multiply your money. It uncovers the unique rules of money and highlights the common financial mistakes which may be stopping you from becoming financial independent.

The article boldly challenges – and often upturns, conventional wisdom. It unravels things about money which you may never even have thought of before. Above all, it gives you the roadmap to be financially free – forever.

Analysis

You become financially free when you can stop working for money and when money starts working for you. That's financial nirvana – and this article shows you how to achieve it.

Money is a very strange thing–human beings make rational decisions while dealing with most aspects of life but make serious errors of judgment when it comes to dealing with money – at the time of dealing with different aspects of money and finance including earning, protecting, budgeting, saving, spending, leveraging, investing and insuring. Completely rational investors take totally irrational decisions when part of crowd – their own individual rational minds come down many levels to the irrational level of the crowd.

What do you think – is money a problem or solution? If you don't have the answer to it then read on. If you believe that "money is the problem" or "money is the solution" then I am afraid that you are a "prisoner of money". Have you ever imagined of setting yourself on the incredible journey of your freedom from your current position as a "prisoner of money" to the attainment of "financial independence".

Let us now embark on this incredible journey of financial slavery to financial freedom and understand the 10 golden principles for achieving it.

Principle 1: Proper Asset Allocation

Asset Allocation is the primary premise for investments. Long term statistical analysis has shown that 90% of portfolio variability is due to asset allocation while only 10% of the variability in portfolio performance is due to market timing and stock selection. The only thing in your control is asset allocation and the good news is that 90% of portfolio variability is due to asset allocation. Remember that all assets move in business and economic cycles of their own and while one asset might be in a bear market there might simultaneously be another asset class in a big bull market of its own. The broader asset groups of equities, bonds, real estate and commodities (others being currency and art) will lead you to the gateway of long term wealth creation and sustenance. While allocating assets, remember to allocate only that much money to risky assets which you don't require for atleast the next 5-years and which you can emotionally see it going down by upto 50% in the short term and not panic on it. Risk and return are inextricably entwined. As a general rule, do not expect higher return from safe investments. However, do expect higher long term wealth creation from the optimal asset allocation in various asset classes whose combined risk as a portfolio is much less than the risk of the individual funds which make it up. Portfolios behave differently from their individual constituents. The aim of an optimal asset allocation is not to invest only in safe assets but to invest in a combination of safe and risky assets whose combined risk is much less than the individual constituents and at the same time offers higher degree of return. Therefore, focus on the behavior of your portfolio and not its constituents. Small portions of your portfolio will often sustain serious losses, but will cause only minor damage to the whole portfolio.

Principle 2: Protecting your money from legal financial predators

If you truly aspire to achieve financial independence then you have to develop the right attitude towards money not only at the time of saving, spending, investing or insuring but also at the time of earning and protecting your money and assets. "Legal financial predators" are those people who legally take away money from your pocket and that also not small but big money. Government is the biggest financial predators of all – it legally takes away money from your pocket in the form of taxes – not only at the time of earning money but even at the time of saving, spending, investing or taking insurance. Bankers are legal financial predators who take away money from your pocket in the form of interest and inflation – reducing the purchasing power of your money by just increasing the supply of money through the multiplier effect. Brokers are other financial predators who not only take money from your pocket but if a bad one, leave you with a bad investment, house, insurance policy or a liability. Corporate retailers are parasitic financial predators who legally take away money from your pocket by selling you those goods which probably you don't require through charging the highest rate of interest on those corporate credit cards which you never needed at the first place. There are other financial predators in the form of death predators, beauty predators, blackmail predators etc who legally and many a times inhumanly take away money from your pocket. You need dual protection from the legal financial predators – at the time of earning money and the vehicle through which you earn. Recognize the four different categories of income – earned, guaranteed, passive and portfolio - and the amount of money which you keep which is the most important figure as against the amount of money which you earn. Your income earning category determines the amount of money which you keep. Appreciate the fact that the legal vehicle – individual or institutional – through which you earn money is of primary importance in determining your taxing status, as also your investment status and your asset holding cum succession planning.

Principle 3: Budgeting – paying yourself first

Try to create a budget surplus by ensuring your income is more than your expenses. And then channelize your additional income properly into investments. Make paying yourself via budget surplus a priority like how you pay to the government (taxes), bank (loan EMIs), utility bills, school fees etc. Then start a proper systematic investment plan (SIP) in across various asset classes keeping the first principle in mind.

Principle 4: Saving

Once you have earned money from the right category, protected it from the legal financial predators and then budgeted for yourself, the next stage would be to "save" money. However, kindly note that save money here means "saving pending investments". If you assume that saving is equal to investing than you might be in for a big surprise. You would probably living in a big delusion because you don't understand the rules of money. The rules of money permanently changed in the year 1971 when the then US President Mr. Richard Nixon took the US off the gold standard and granted itself the license to print money. Since, then the US Dollar and other world "currencies" have depreciated while the price of all commodities measured against it be it precious metals like gold, silver or industrial metals like steel, copper, aluminum or agricultural commodities – all have gone up and will continue to go up over the long term. That's why we call "money as currency".

And when you are save in terms of money – it is just currency whose value is continuously and incessantly lost. Therefore, in this modern information age of currency, savers are losers. Hence, you have to learn to convert your money into "investment assets". Another benefit of converting money into "investment asset" is that you actually profit from inflation. This is because if you use money to purchase assets which increase in value with inflation, you are actually benefiting from inflation! For example, you own rental real estate, every time the value of money goes down because of inflation, you get the liberty to increase your rent which in essence not only increases your cash flow with immediate effect but also leads to increase in the value of your property because inflation causes the replacement cost of your property to go up which in turn leads to increase the price of your own property. This is how you can actually benefit from inflation by playing the rules of money correctly.

Principle 5: Spending – the necessary evil

You have by now earned your income from the most efficient source, protected it from the legal financial predators, budgeted for yourself and then saved it pending proper asset allocation, investments and insurance. So, now what? Your obvious answer would – okay so go ahead, do the asset allocation, invest and then take insurance. However, I regret to state that this will not be the correct answer. Before, you do all those things, you have to spend. There are some pressing expenditure in the form of "necessary revenue expenses" like utility bills, telephone bills, school fees, medical costs etc which cannot wait. Further, there are also some "necessary capital expenditure" like mortgage installment which are also to be paid on time. Hence, before you think about asset allocating, investing or insuring, you have to settle and get done with these necessary revenue and capital expenditures. Once, you finish with them then you have to move forward with the avoidable evils – unnecessary revenue and capital expenditures. The unnecessary revenue expenditure would be costly dinners, foreign travels etc. In the same way, unnecessary capital expenditure would be new luxury car, beach house etc.

All these expenses rob you of your wealth and ensure that you never reach financial independence. So, why spending comes before investing and insuring is very simple – firstly because some "necessary revenue and capital expenditure" are very pressing and cant wait but secondly, and the major reason is that because to help you in going one stage back so that you can then leap many steps forward towards your financial independence. Now, you will imagine what am I saying about going back and forth and why in this world am I recommending you to go back. Don't forget, that sometimes in this world, when we have to leap many steps forward, it might be prudent to take a couple of steps backwards, before the big leap. What I mean by all this is that you should honestly endeavor and purposefully curtail a reasonable portion of your "unnecessary revenue and capital expenditure" and put it back in your savings kitty. And once you are able to accomplish this, you will have much more good money on which to take positive leverage, then invest and also insure.

Principle 6: Leveraging – the money multiplier

You have come pretty far in your money journey. By now you know how to earn your income from the most efficient source, protect it from the legal financial predators, budget for yourself, then save it pending proper asset allocation and how to save at the time of spending from the unnecessary revenue and capital expenses. So, what next. Apparently, you will believe that after doing all these exercise the only thing left is investing and insuring. Certainly yes, you have to now to invest and insure, but with what and whose money. The person who invests his / her own money properly is clever but the person who invests with other's money is smart and shred. So, remember the power of "positive leverage". Therefore, stage 6 is leveraging. This is a very important stage which will determine whether you become a big fish in your own pond or swim out of it and become a big fish in the vast ocean. Leverage is a multiplier. Positive leverage will simply multiply your wealth. You have to know the difference between good and bad debt and avoid bad debt while use good debt to multiply your money.

Contrary to popular opinion, leverage is not risky if you know how to harness the power of positive leverage. Infact, lack of proper leverage mind hinder your goal of achieving financial independence.

Positive leverage is that debt which multiplies your money by putting money into your pocket while negative leverage is that debt which reduces your money by taking money away from your pocket. Learn to recognize the difference between an "Investment Asset" and a "liability disguised as an accounting asset". Never use leverage to buy a liability disguised as an accounting asset because it will not only take money out of your pocket in the form of maintenance and running expenses of the accounting asset but also in the form of interest payments on your debt. Leverage or debt should be used to buy only Investment asset. This is called positive leverage. To unleash the ultimate power of positive leverage, you have to aim to reach the stage of "net positive cash flow after tax" because once you have reached this stage then you start making "money for nothing". Inflation is your partner with positive leverage because you borrow in costlier money today and repay back your loan in cheaper money simply because of inflation.

Principle 7: Investing

I am very happy that you have come thus far in your money journey. And yes, you have become pretty clever knowing how to earn your income from the most efficient source, protecting it from the legal financial predators, budgeting for yourself, saving it pending proper asset allocation, also saving it at the time of spending and then unleashing the power of positive leverage. Now what? I think its reasonably clear that you have reached the seventh stage which is nothing but investing. Don't ever underestimate this stage because this is the stage which will many times determine the make or break of your financial success. Many of the other stages like budgeting, saving, leveraging etc will be wasted if you do mistake at this stage. So, allocate your money intelligently in the various available asset classes in an appropriate proportion so as to help you create a suitable investment portfolio.

Principle 8: Insuring

You have really reached very far in the money journey. After learning how to earn your income from the most efficient source, protecting it from the legal financial predators, budgeting for yourself, saving it pending proper asset allocation, also saving it at the time of spending, unleashing the power of positive leverage and then investing with proper asset allocation you are now left with only one thing in your money journey - insuring.

Whether we are aware of it or not and whether we accept the fact or no but we are constantly taking insurance against something when we breed, eat, sleep, talk, learn, make friends, marry, serve etc. Then why shy away from financial insurance. Insurance is of prime importance and should be considered a part of your financial plan, especially when you are first starting out. If you don't have enough money, then you need insurance to protect yourself, your spouse, children, parents and other dependents. If you are rich and have excess money, you all the more require financial insurance to protect your wealth from all kind of natural disasters as well as financial predators.

Financial insurance simply means insurance against any and everything which is a hindrance between you and your money – whether by not allowing you to earn more money, save money, invest money or in any form take money away from your pocket. The main category of financial insurance would include family protection, personal insurance, disability protection, asset protection, loss of profit protection and medical insurance. There is another category of "financial insurance" also which you require to protect yourself and your wealth from the "money predators". They include legal insurance – protection against legal rogues, tax insurance – protection against the government taxman, competitor protection – to be able to remain in the business in which you are today, love protection – against the love predators and portfolio insurance – which would protect your assets against untoward large loses. These were those type of "financial insurance" which you essentially need to take if you want to grow and secure your wealth. However, the sad point is that no insurance company would provide you with this category of insurance. Hence, in essence you have to become your own "insurance company" and secure insurance for your assets all by yourself.

Principle 9: Common Financial Mistakes

Many a times, individual rational intelligent persons commit simple mistakes while dealing with money. I try to mention some of them below:

- Don't throw good money after bad money – meaning that money lost is gone and forget about it, start fresh from today and don't ever base your future financial decisions on the basis of the past.
- Don't treat losses and gains separately. All is money and its colour is the same.
- The pain which you probably get from losing a given quantity of money must be equal to the pleasure which you get from gaining the same sum of money.
- Always treat money received from all sources as same and equally sacred.
- Selective thinking is a common and dangerous money illusion which blocks your mind by not allowing all the relevant information to flow into it for taking a correct financial decision.
- Decision paralysis results in sticking with the bad decision and not bale to change for the good in proper time.
- "Holding on to what you have" is a financial mistake which very few people know and acknowledge.

Always behave like a rational level minded person while dealing with money applying common sense to help you navigate through your financial problems.

Principle 10: Rules of money

Money has its own rules but neither school education nor a textbook will teach you these rules of money. You have to understand and figure them out on your own. And, remember, unless you know the rules of money, your quest for achieving financial freedom may never turn into a reality. If you don't learn the rules of money and learn to master money, you will always remain its slave – wage slave of the employer, tax slave of the government and loan slave of the bank.

- If money is your problem, money cannot be the solution; simply because the problem itself can't be its solution. Further, the problem of money is not only its scarcity — even its excess can be a problem.
- Never be a slave to money; be the master of your money. And once you become the master of your money, you will automatically start walking on the path of financial independence.
- Don't run after money; instead, be a financial magnet which attracts money and ensures that it always sticks around with you.
- Invest time before you invest money. Don't just aim at being rich without any knowledge or experience about money. Learn how money has been made and lost in this world before you commit your own money.
- Be in control of your money. If you are not in full control of your money while dealing with it — be it in earning, saving, protecting, budgeting, investing, insuring — then it will control you and you will never be able to achieve financial independence.
- Don't work for money; rather, let money work for you. Nobody can become really rich and stay wealthy by working for money. If you keep working for money, you would just be doing that throughout your life.
- Understand the flow of money in your financial statements. This is very critical otherwise you will work more, earn less, pay higher amounts of tax, and let your money be eaten away by the monster of inflation, subject your money to wrong investments, buy wasteful capital assets with the help of negative leverage and never achieve financial independence.
- One of the important rules of money is to spend money to get rich. The truly wealthy people know when to handsomely spend on what and when to cut down. By not spending on the right thing at the right time, you might be permanently closing the doors of your house to money.
- Know how much you are actually earning, saving, protecting, budgeting, spending, investing and insuring. By having vague or notional figures, you are just burning away your money and life.
- Remember that good money always drives out bad money. Therefore, you have to learn to distinguish between good and bad money. In simple terms, that which appreciates in value, and / or produces income and cash flow is good money while that which does not produce any income or cash flow and is subject to constant depreciation and loss in value is bad money.

- Don’t be afraid of money. Instead face it with courage.
- Money is unfair, so learn its rules in order to use them to your advantage. If you respect money and play the game of money by knowing the rules, you will see a world of abundant money and will make money work for you.
- Create and print your own money. If the government can legally print notes, so, too, can you.
- You must know how to handle the biggest of all drugs — money. Yes, it is a drug, the lack of it or its overdose can cause serious financial and emotional damage. The only way to properly handle the powerful drug of money and not get addicted is by acquiring sound financial knowledge — the understanding of how money functions.

Conclusion

No school or college teaches you about money - after finishing your education bank will not ask you about your mark sheet but rather they want to see your Balance Sheet before giving you loan. You may be academic smart but in life to survive you need to be financially smart -most poor and middle class work hard for money but rich people do not work for money, instead they send their money to work for them. The rich focus on buying income producing assets like passive income and portfolio income while poor and middle class buy liabilities mistaking them to be assets funded by negative leverage. That is why poor become more poor as they are slaves of money while rich are masters of money - they know the game of money and the rules of money. Don’t forget that money is the only thing which is in available in abundance and in unlimited quantity in this world. The rich recognize the fact that money is just an idea, they can print their own money legally as they pay themselves first via budget surplus and they make their as well as other people’s money work harder for them. In this fast changing information age, the rules of money have changed from old industrial age -you do not need a retirement plan in this modern information age as you have to aim to be financial free from day one. And once you as an individual are able to achieve financial freedom it is only then when you represent your company, society or government that you will be able to remove this world out of the financial mess and achieve financial independence.

All the very best in your quest for achieving financial freedom.

Reference

“10 Commandments for Financial Freedom” by Mehrab Irani.

New Banking Licenses: Space for Tech Savvy Nimble Footed Players

*Dr Brinda Jagirdar**

Following banking sector reforms in 1991-92, RBI had allowed 10 new private sector banks to be set up in the country and later in 2004 two more private sector banks were set up. While entry of new private banks has generally been restricted, in the coming months, RBI is expected to announce issue of banking licenses to maybe half a dozen domestic private sector players in India. This time, corporate and industrial houses, entities in the public sector and NBFCs have been allowed to apply. The minimum paid-up capital is set at Rs five billion with foreign shareholding in the new bank capped at 49% for the first five years, going up thereafter to the current cap of 74% applicable to existing banks. Private players aspiring to enter the banking space can promote a bank only through a Non-Operative Financial Holding Company (NOFHC), which will also hold all other financial entities of the promoters, thus giving greater oversight to the banking regulator.

The minimum capital adequacy ratio has initially been set at 13% of its risk weighted assets, all prudential norms will be applicable to the bank, there have to be a majority of independent directors on the board, from inception the bank will be bound by existing priority sector targets applicable to domestic banks and has to open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999). Successful promoters will have to start operations within 18 months.

All about timing

This does appear to be the right time to open up the sector further as India's banking industry is led by strengthening capital adequacy and a facilitative regulatory climate. Around 26 entities including corporate houses, NBFCs, public sector players, microfinance companies and the postal department had applied for bank licenses before RBI's 1st July deadline but some entities have pulled out of the race.

While all aspirants are unlikely to get an entry into the banking sector, a larger number of banks will mean more competition leading to more products and better service and therefore a better deal for customers. It could also lead to consolidation with weaker players merging or focusing only on niche areas. Bigger banks will provide the financial muscle to finance large projects. But the biggest impact would be on extending reach. Expanding

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Summary of the Banking Industry: 1991-92 to 2011-12

(Rs. billion)

Year / Bank Group	1991-92			1997-98			2011-12		
	PSB	DPB	FB	PSB	DPB	FB	PSB	DPB	FB
No. of banks	27	25	24	27	33	42	28	20	41
Total asset	3020	143	252	5317	695	429	60380	16778	5836
Total deposit	2359	123	173	5317	695	429	50020	11746	2771
Total credit	1440	64	93	2599	354	293	38783	9664	2298
Credit-deposit ratio (%)	61.1	52.4	54.1	48.9	51.0	68.3	77.5	82.3	8.9
Share (in per cent)									
Total asset	88.4	4.2	7.4	81.6	10.2	8.2	72.8	20.2	7.0
Total deposit	88.9	4.6	6.5	82.5	10.8	6.7	77.5	18.2	4.3
Total credit	90.1	4.0	5.8	80.1	10.9	9.0	76.4	19.0	4.5
Total income	344	15	38	677	95	87	5351	1585	472
of which:									
interest income	308	14	29	591	79	68	4847	1340	363
Total expenditure	289	12	25	574	76	62	4188	1201	287
of which:									
interest expenses	210	8	19	402	59	42	3285	868	152
Provisions	47	2	9	53	10	19	668	156	91
Net profit	8	1	4	5	8	6	495	227	94
Bank asset/GDP (%)	50.7			50.6			93.7		

PSB =Public Sector Banks; DPB= Domestic Private Banks; FB=Foreign Banks. Source: RBI

financial inclusion requires not merely opening branches and dispensing credit, but actually expanding access to a range of financial services like savings and insurance products, payments services, etc. at low cost. In this sense, the new norms seek to ensure that not merely are there more banks but they are also present in remote rural areas which need banking services. Importantly, financial inclusion is not seen as focusing only on rural poverty but also includes the urban poor.

Checks and balances put in place

One important issue has been the stipulation of exposure norms which seeks to address the issue of concentration and conflict of interest, which has been raised by the entry of corporate houses into the fray. RBI has stipulated that the NOFHC and the bank will not have any exposure to the promoter group and no investment by the bank will be allowed in the equity / debt capital instruments of any financial entities held by the NOFHC.

This measure reflects the past role of corporate houses in banking. In the 60s, bank credit was increasingly diverted to large centres: centres with population of 10 lakh and above accounted for 43% of total deposits but as much as 60% of bank credit with 86.3% of incremental credit during 1961-1966 going to these centres. As pointed out by DN Ghosh (Banking Policy in India, Allied Publishers, 1979), pre-nationalization phase dominated by private sector banks was marked by concentration in credit. In March 1968, 19% of the borrowers claimed 96% of the total credit and as smaller banks declined in number, there was a shift in the composition of advances as the share of loans to big industry rose while that of agriculture and personal loans declined:

Share of Bank Credit to Various Sectors (%): 1951-1968

Sector	1951	1956	1961	1966	1968
Industry	34	37.1	50.8	62.7	67.5
Commerce	36	36.5	28.6	21.4	19.2
Financial	12.7	9.33	5.1	3.3	2.7
Personal	6.8	6.6	6.7	4.6	3.7
Agriculture	2.1	2.0	3.1	2.4	2.2
Others	8.4	8.4	5.6	5.6	4.7
Total	100	100	100	100	100

Source: Ghosh 1979 p122

Second, the stipulation of rural presence and priority sector norms will help credit dispersal and financial inclusion. To give a push to financial inclusion, RBI has asked all banks to increase lending to micro enterprises in stages from 50% in 2010-11, 55% in 2011-12 to 60% in 2012-13. This time round, banks will have to achieve 10% annual growth in number of micro enterprise accounts and 20% yoy growth in credit along with no frills accounts, banking correspondents, business facilitators, mobile banking and a business strategy that requires a roadmap that outlines their financial inclusion plans.

Third, more regulatory and supervisory powers for RBI while liberalising is another step in the right direction. The 60s was marked by a period of consolidation through mergers and amalgamations. RBI sought to strengthen the banking system by weeding out unsound banks. Banks which could not improve their financial position and methods of operations even after repeated advice and guidance were closed down through refusal of license. After the failure of Palai Central Bank and Laxmi Bank in 1960, RBI acquired the power to grant moratorium to banks and frame schemes for their compulsory amalgamation or reconstitution from September 1960. Following the spate of mergers and amalgamations, the number of commercial banks operating in the country came down from 640 in 1947 to 605 in 1950 and further to 292 by 1961 and 85 by 1969 (Banking Commission 1972).

This time round, liberalising the banking sector is proposed through entry of private banks along with power to supersede boards. Importantly, both times, change was preceded by increase in regulatory and supervisory powers and maintenance of certain minimum standards.

Continuing reforms in the banking sector

The decision to allow more private sector players is in line with RBI's continued efforts to push reforms. In the banking space, measures include deregulation of interest rate on savings bank deposits, introduction of base rate, guidelines on compensation practices, Basel III capital adequacy norms, supervision of financial conglomerates, limits on transactions and exposures between bank and other group entities, convergence of Indian accounting standards with International Financial Reporting Standards (IFRS), consumer protection, anti-money laundering and KYC norms.

Going forward

However, going forward, we need a system for exit also and not merely entry of banks because, as pointed out by the Raghuram Rajan Committee (2008), the Indian banking sector is fragmented and there are too many small, uncompetitive players in the system. Consolidation with emergence of 3-4 international banks, some national banks and others as regional banks will remove overlap and strengthen the Indian banking landscape.

It may also be time to consider reduction in government equity in banks. At present, many public sector banks are limited by the constraints on management and capital and regulations that inhibit flexibility and innovation in banks. Reduction in government stake will create a level playing field, help banks expand their balance sheet and grow in tandem with the Indian economy, while at the same time bridge the fiscal deficit gap.

In step with the new tech savvy nimble footed players in the private sector, public sector banks will also have to address the issue of skill gaps in IT, risk management, product innovation and also credit assessment along with filling the gaps in personal policy that includes recruitment at market salaries, reskilling and redeployment.

Select Economic Indicators

Agriculture & Industrial Production

Industry	July-September (Q2)									
	(₹ Crore)									
	GDP for Q1 of						Percentage change over preious year			
	2011-12		2012-13		2013-14		2012-13		2013-14	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
Agriculture, Forestry & Fishing	332489	274539	379221	307017	421768	370600	14.1	11.8	11.2	20.7
Industry										
Mining and Quarrying	46169	43139	52328	48933	50144	49632	13.3	13.4	-4.2	1.4
Manufacturing	292216	289720	304505	308004	310463	317816	4.2	6.3	2	3.2
Electricity, Gas & Water Supply	35123	35609	40493	42831	51413	52117	15.3	20.3	27	21.7
Serivces										
Construction	159614	163548	183795	181987	197872	201463	15.2	11.3	7.7	10.7
Trade, Hotels, Transport and Communication	506681	504993	575245	586998	625323	647018	13.5	16.2	8.7	10.2
Financing Institutions, Real Estates & Business Services	330340	340887	388305	399432	443877	468550	17.5	17.2	14.3	17.3
Communtiy, Social & Personal Services	243460	299609	287826	353086	337038	398053	18.2	17.8	17.1	12.7
GDP at factor cost	1946092	1952044	2211719	2228289	2437898	2505249	13.6	14.2	10.2	12.4

Source: Ministry of Statistics and Programme Implementation, Government of India. Estimates of Gross Domestic Product (at current price)

Performance of Core-Industries

Sector-wise Growth Rate (%) in production (Weight in IIP: 37.90%)

	Weight	Apr- Oct 2012-13	Apr- Oct 2013-14
Coal	4.37	9.7	1.3
Crude Oil	5.21	-0.7	-1.2
Natural Gas	1.70	-12.8	-16.1
Refinery Products	5.93	29.7	3.7
Fertilizers	1.25	-4.5	2.7
Steel	6.68	1.4	4.4
Cement	2.40	8.8	4.0
Electricity	10.31	4.9	4.8
overall Index	37.903	6.8	2.6

Compiled by BCCI; Source of data Office of the Economic Advisor(Base yr 2004-05=100)

External Sector

Exports and Imports (in US $ million)

Item	2012-13 (Apr-Oct)	2013-14 (Apr-Oct)	October	
			2012-13	2013-14
Exports	24032.9	27270.97	168706.81	179376.37
Imports	44243.75	37827.02	280737.65	270058.66
Oil Imports	94969.20	98093.70	14957.70	15217.60
Non-Oil Imports	185768.50	171965.00	29286.10	22609.40
Trade Balance	-20210.85	-10556.05	-112030.84	-90682.29

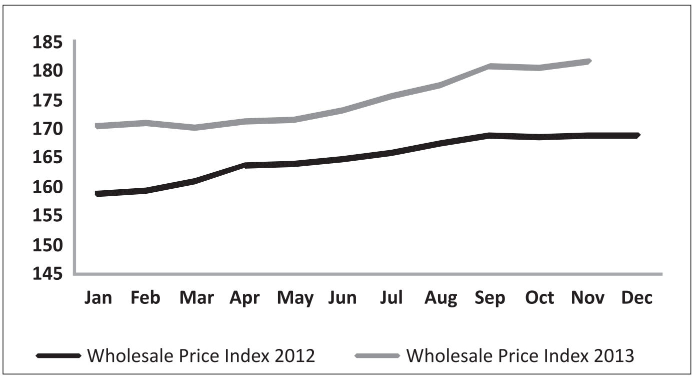
Source: Ministry of Commerce and Industry

Foreign Currency Assets			
For the Quarter Jul-Sep 2013			
Currency	Rates	Currency	Rates
USD	62.0600	AUD	56.8325
GBP	96.2150	HKD	8.0025
EURO	82.2000	SGD	48.9350
JPY	62.7250	CAD	59.7025
CHF	66.5825		
Source: Foreign Exchange Dealers' Association of India			

Prices

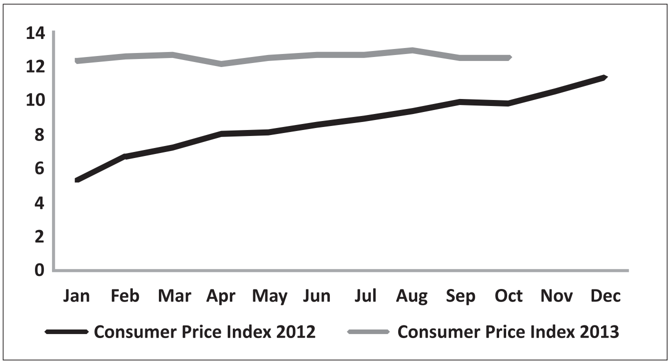
Current price situation based on monthly Wholesale Price Index in Nov, 2013 (Base: 2004-05=100)

Items/Groups	Weight (%)	Cumulative Change (%) Since March		Inflation (%) (Year-on-Year)		Inflation(%) Average of Last 12 Months	
		2012-13	2013-14	2012-13	2013-14	2012-2013	2013-2014
ALL Commodities	100	4.84	6.70	7.24	7.52	0.18	0.67
Primary Articles	20.12	6.40	14.88	9.56	15.92	0.77	1.87
Food Articles	14.34	8.47	19.76	8.80	19.93	0.52	1.99
Fuel and Power	14.91	6.13	9.39	9.97	11.08	-0.58	0.10
Manufactured Products	64.97	3.79	2.15	5.41	2.64	0.07	0.20



All Commodities Wholesale Price Index Base 2004-05= 100

Point to Point Rate of Growth



Point to Point Rate of Inflation (%) Base 2001= 100

World Prices of Select Commodities

Commodity	Unit	Annual Averages			Monthly Average		
		January-December	January-December	January-December	June	July	August
	2010	2011	2012	2013	2013	2013	
Energy							
Coal, Australia	$/mt	99.0	121.5	96.4	82.8	77.3	77.0
Crude Oil, Average	$/bbl	79.0	104.0	105.4	99.7	105.3	108.2
Crude Oil, Brent	$/bbl	79.6	110.9	112.0	103.1	107.7	111.0
Crude Oil, Dubai	$/bbl	78.1	106.0	108.9	100.3	103.4	107.0
Crude Oil, West Texas Int.	$/bbl	79.4	95.1	94.2	95.8	104.7	106.5
Natural gas, Europe	$/mmbtu	8.3	10.5	11.5	11.9	11.6	11.1
Agriculture Beverages							
Coffee, robusta	c/kg	173.6	240.8	226.7	200.1	209.9	207.3
Tea, auctions(3), average	c/kg	288.5	292.1	289.8	283.5	283.2	281.2
Food							
Coconut oil	$/mt	1124.0	1730.0	1111.0	895.0	861.0	891.0
Groundnut oil	$/mt	1404.0	1988.0	-	1813.0	1758.0	1685.0
Copra	$/mt	750.0	1157.0	741.0	601.0	569.0	587.0
Palm oil	$/mt	901.0	1125.0	999.0	860.0	833.0	828.0
Palmkernel oil	$/mt	1184.0	1648.0	1110.0	854.0	836.0	866.0
Soybean meal	$/mt	378.0	398.0	524.0	558.0	563.0	524.0
Soybean oil	$/mt	1005.0	1299.0	1226.0	1041.0	995.0	997.0
Soybeans	$/mt	450.0	541.0	591.0	524.0	509.0	514.0
Grains							
Barley	$/mt	158.4	207.2	240.3	229.9	214.0	189.0
Maize	$/mt	185.9	291.7	298.4	298.4	279.5	238.7
Rice, Thailand, 25%	$/mt	441.5	506.0	-	483.8	454.0	425.0
Wheat, Canada	$/mt	312.4	439.6	-	-	-	-
Sugar,world	c/kg	46.9	57.3	47.9	37.7	37.1	37.5
Raw Materials							
Logs,Malaysia	$/cum	278.2	390.5	360.5	306.0	298.8	304.4
Plywood	c/sheets	569.1	607.5	610.3	561.3	548.0	558.3
Cotton	c/kg	228.3	332.9	196.7	205.2	204.2	204.5
Rubber RSS3	c/kg	365.4	482.3	337.7	281.0	256.3	256.9
Metals and Minerals							
Aluminium	$/mt	2173.0	2401.0	2023.0	1814.5	1769.6	1817.6
Copper	$/mt	7534.8	8828.2	7962.3	7000.2	6906.6	7192.9
Iron ore	c/dmt	145.9	167.8	128.5	114.8	127.2	136.7
Gold	$/toz	1225.0	1569.0	1670.0	1343.4	1285.5	1351.7

Source: World Bank - The Pink Sheet

Government Accounts

Trends in Central Government Finances: from April- Mar 2013-14

(₹ in Crores) @@

		Budget Estimates 2013-2014*	Actuals@ upto October 2013	% of Actuals to Budget Estimates	
		₹	₹	Current	COPPY**
1	**Revenue Receipts**	**1056331**	**456041**	**43.2%**	**(43.2%)**
2	Tax Revenue (Net)	884078	356526	40.30%	-43.30%
3	Non-Tax Revenue	172252	99515	57.80%	-42.80%
4	**Non-Debt Capital Receipts**	**66468**	**8082**	**12.20%**	**-17.40%**
5	Recovery of Loans	10654	6493	60.90%	-50.30%
6	Other Receipts	55814	1589	2.80%	-4.60%
7	Total Receipts (1+4)	1122799	464123	41.30%	-42.10%
8	**Non-Plan Expenditure**	**1109975**	**653950**	**58.90%**	**-57.20%**
9	On Revenue Account	992908	591816	59.60%	-58.30%
	(i) of which Interest Payments	370684	184422	49.80%	-48.70%
10	On Capital Account	117067	62134	53.10%	-47.50%
	(i) of which Loans disbursed	337	10146		
11	**Plan Expenditure**	**555322**	**268059**	**48.30%**	**-43.20%**
12	On Revenue Account	443260	217235	49.00%	-43.90%
13	On Capital Account	112062	50824	45.40%	-40.20%
	(i) of which Loans disbursed	19732	10026	50.80%	-44.80%
14	**Total Expenditure (8+11)**	**1665297**	**922009**	**55.40%**	**-52.30%**
15	**Fiscal Deficit (14-7)**	**542499**	**457886**	**84.40%**	**-71.60%**
16	**Revenue Deficit (9+12-1)**	**379838**	**353010**	**92.90%**	**-81.40%**
17	**Primary Deficit {15-9(i)}**	**171814**	**273464**	**159.20%**	**-109.40%**

* Financial Year runs from "April to March"
** COPPY : Corresponding Period of the Previous Year
@ Actuals are unaudited provisional figures.
@@ 1 Crore = 10 Millions

Money & Banking

Money Stock: Components and Sources

(₹ Billion)

Item	Outstanding as on 2013		Variation over									
			Fortnight		Financial Year so far				Year-on-Year			
					2012-13		2013-14		2012		2013	
	Mar. 31	Nov. 29	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
M3	83,820.2	91,460.9	719.5	0.8	6,246.8	8.5	7,640.7	9.1	8,971.3	12.6	11,565.8	14.5
1 Components												
1.1 Currency with the Public	11,447.4	12,085.3	–207.9	–1.7	646.8	6.3	637.8	5.6	1,152.6	11.9	1,211.9	11.1
1.2 Demand Deposits with Banks	7,469.6	7,488.9	136.7	1.9	–64.9	–0.9	19.3	0.3	550.5	8.5	444.0	6.3
1.3 Time Deposits with Banks	64,870.9	71,808.0	750.3	1.1	5,669.3	10.1	6,937.1	10.7	7,271.0	13.3	9,854.8	15.9
1.4 'Other' Deposits with Reserve Bank	32.4	78.8	40.3	104.7	–4.5	–15.8	46.4	143.2	–2.7	–10.3	55.0	231.8
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	27,072.1	29,927.9	–295.7	–1.0	2,388.1	10.1	2,855.8	10.5	3,639.0	16.2	3,822.8	14.6
2.1.1 Reserve Bank	5,905.8	6,583.9	–493.0	1.0	678.1	1,286.0	1,225.5					
2.1.2 Other Banks	21,166.3	23,344.0	197.3	0.9	2,387.1	13.0	2,177.7	10.3	2,353.1	12.8	2,597.4	12.5
2.2 Bank Credit to Commercial Sector	56,646.6	60,450.7	148.3	0.2	3,881.2	7.8	3,804.0	6.7	7,835.5	17.2	6,985.0	13.1
2.2.1 Reserve Bank	30.6	38.9	0.7	14.9	8.3	37.2	–15.7					
2.2.2 Other Banks	56,616.1	60,411.8	147.6	0.2	3,866.3	7.8	3,795.8	6.7	7,798.3	17.1	7,000.7	13.1
2.3 Net Foreign Exchange Assets of Banking Sector	16,366.6	18,021.1	316.6	1.8	753.9	4.9	1,654.5	10.1	296.9	1.9	1,829.4	11.3
2.4 Government's Currency Liabilities to the Public	153.4	162.3	–	–	12.8	9.5	8.9	5.8	18.4	14.3	15.1	10.2
2.5 Banking Sector's Net Non-Monetary Liabilities	16,418.5	17,101.0	–550.3	–3.1	789.3	5.2	682.6	4.2	2,818.5	21.4	1,086.5	6.8
2.5.1 Net Non-Monetary Liabilities of RBI	6,925.0	8,836.7	–182.1	–2.0	1,073.4	17.8	1,911.7	27.6	1,297.0	22.3	1,724.9	24.3

*: Includes Investments in foreign currency denominated bonds issued by IIFC(UK) since March 20, 2009
Note: Government Balances as on March 31, 2013 are before closure of accounts

Scheduled Commercial Banks - Business in India

(₹ Billion)

Item	Outstanding as on Nov 29, 2013	Variation over				
		Fortnight	Financial year so far		Year-on-Year	
			2012-13	2013-14	2012	2013
	1	2	3	4	5	6
Aggregate Deposits	74,779.3	881.8	5,309.5	7,274.7	7,264.2	10,379.0
Bank Credit	56,650.3	151.1	3,469.4	4,045.7	7,219.6	7,062.3
Non-food credit	55,608.3	127.1	3,204.5	3,968.0	6,960.2	7,098.3

Cash Reserve Ratio/ Interest Rate

Item/Week Ended	2012	2013
	Dec.7	Dec.6
Cash Reserve Ratio (per cent) (1)	4.25	4.00
Bank Rate	9.00	8.75
Base Rate	9.75/10.50	10.00/10.25
Term Deposit Rate(2)	8.50/9.00	8.00/9.05
Saving Deposit Rate	4.00	4.00
Call Money Rate	8.03	7.23

(1) Cash Reserve Ratio relates to the Scheduled Commercial Banks (exclusing Regional Rural Banks)
(2) Deposit Rate related to major Banks for deposits of more than one year maturity.

Inflation Indexed Bonds: Challenges & Opportunities In India

In pursuant to the announcement made in the Union Budget for 2013-14 to introduce instruments that will protect savings of poor and middle classes from inflation and incentivise the household sector to save in financial instruments rather than buying gold, RBI recently in consultation with Government of India has launched National Savings Securities-Cumulative (IINSS-C) Securities.

The Banking, Finance & Economics (BFE) Committee of Bombay Chamber wishes to invite you for an interactive session organised on Monday, February 3, 2014 to facilitate the interaction with experts on issues related to Inflation Index Bonds (IIBs).

Agenda

Registration

3.30 pm to 4.00 pm

Welcome Address

4.00 pm to 4.10 pm

D.K. Joshi

Group Chair, Economic Policy & Affairs Group, Bombay Chamber and Chief Economist, CRISIL

Panel Discussion

4.10 pm to 5.00 pm

Floor Discussion

5.00 pm to 5.20 pm

Vote of Thanks

5.20 pm to 5.30 pm

Murali M. Natrajan

Chair, BFE Committee, Bombay Chamber and MD & CEO DCB Bank

High Tea

5.30 pm onwards

Panel Discussants

D.V.S.S.V. Prasad

Deputy CEO, FIMMDA

N.S. Venkatesh

Chief General Manager &Head Treasury, IDBI Bank

Ashutosh Khajuria *

President - Treasury & Network II, Federal Bank Ltd

Panel Moderator

Dr. Brinda Jagirdar

Independent Economist and Former Chief Economist, SBI

Date & Venue

Monday, February 3, 2014

Mackinnon Mackenzie Building, Ballard Estate, Mumbai - 400 001

Participation Fee

Member : Rs. 600/-   Non-Member: Rs. 1000/-

Students with valid College Id: Rs. 300/-

** Fees incl. of 12.5% service tax*

Discount

10% discount on more than 3 participants

15% discounts to more than 5 students

Cheque/ DD to be drawn in favour of

BOMBAY CHAMBER OF COMMERCE AND INDUSTRY

Payment also acceptable through NEFT and Cash for details kindly contact us

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NOTE: ***Participation fee is non-refundable though registration substitution is permissible.***

Please click here for Registration Form

https://docs.google.com/a/uchitha.com/forms/d/16EN0duZeQMKuhrZOhTa2kx9bOFqMTkG fqVXyATJwEAo/viewform

For registration and details kindly contact below :

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Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies

The Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies was constituted in 1996 by the Bombay Chamber of Commerce and Industry to undertake independent research activities on various economic and management issues and for providing analytical views on macro-economic scenario, industrial performance and other issues of topical interest.

The Trust started publishing the quarterly magazine 'AnalytiQue' for the quarter October-December in the year of 1999 to serve as an effective vehicle of communication between the government, industry, economists, thinkers, management consultants and scholars. In its short journey the magazine had some trying spells and after the issue of January-March, 2006 there has been no issue. However, after four years, the Trust published the next issue as Journal in March, 2010. While retaining its basic purpose and character, AnalytiQue now continues to serve members, who are drawn mainly from the world of business and commerce and deals with contemporary economic issues while documenting some of the important developments of the Indian economy.

Bombay Chamber of Commerce & Industry Trust for
Economic and Management Studies
Mackinnon Mackenzie Building, Ballard Estate, Mumbai 400 001
Tel: 91-22-4910 0200
Email: analytique@bombaychamber.com

BOMBAY CHAMBER

"E - Information Service"

The **"E - Information Service"** is provided through an online newsletter called **'E - weekly'** to disseminate useful information on business and commerce in India and International countries. This service is provided to both the members of Bombay Chamber as well as non-members. The information contains notifications, circulars and reports issued by respective Department on:

- Banking & Taxation
- Customs & Central Excise
- D. A. circulars, Industrial Relation and Labour Laws
- Selected Statistical Data
- International Trade Information through Economic and Commercial Reports
- World Bank news on Loan and Credit Summary
- Shipping

For Further information on prescribed fess and registration please refer the link below:

http://www.bombaychamber.com/Uploads/Document/104/E-info_Form.pdf