



Sheth Shantaram Mangesh Kulkarni

Founder of

NKGSB CO-OP. BANK LTD.

(Multi-State Scheduled Bank)

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Dr. Narendra Jadhav is a well-known economist, public speaker and a social worker. He joined the Reserve Bank of India in 1977, served in various capacities and was head of the Department of Economic Analysis & Policy of the RBI.

He served as Advisor to the Executive Director at the IMF during 1998-2002 and also completed an assignment for the Independent Evaluation Office at the IMF. Dr. Jadhav has in past served as Advisor to the Governor of National Bank of Ethiopia and has visited several countries as part of various missions. He has been associated with a large number of committees. He was the Member Secretary of the Committee to Review the Working of the IGIDR (Chairman : Dr. I. G. Patel). He took over as Vice Chancellor, University of pune on 24th Aug , 2006.

Dr. Jadhav has several scholastic honors and professional distinctions to his Credit. He holds a doctorate degree in Economics from Indiana University, USA, 1m which he won the Best International Student Award and the Award for Outstanding Contribution to Economic Theory from the Indiana University, USA. His major research interests include monetary economic , public finance, international economics and econometrics. He was awarded the Maharashtra Sahitya Parishad Award for his book 'Dr. Ambedkar: Economic Thoughts & Philosophy'. His recent novel 'Outcast – Life and Triumphs of Untouchable Family In India' has been published in French and is being published in English. Dr. Jadhav's Marathi novel 'Amcha Bapp Ani Amhi' was nominated for Sahitya Academy Award and a 52 part Hindi TV serial is currently underway on the same. His books on 'Monetary Economics for India', Macmillan, 1994 and his edited book 'Challenge to Indian Banking: Competition, Globalization and Financial Markets', Macmillan, 1996 have been popular readings on the subject. Besides, he has about 40 research articles in journals and edited books. These include:

"Money, Output & Prices: Causality Issues and Evidence", Indian Economic Journal, July-Sept.,1992.

"Issues in Financial Sector Reforms" (Jointly with Dr. C. Rangarajan) in 'Indian Economy: Problems and Prospects', edited by Dr. Bimal Jalan,1992.

"Monetary Modeling of the Indian Economy: A Survey", RBI Occasional Papers, June-1990,

"Fiscal-Monetary Dynamic Nexus in India: An Econometric Model", Economic and Political Weekly, January 1990.

"Dynamics of Interaction Between Government Deficit and Domestic Debt in India" (jointly with Dr.C.Rangarajan and Dr.Anupam Basu), RBI Occasional Papers, September 1989, rep in 'Tax Policy and

Planning in Developing Countries', eds, Amresh Bagchi and Nicholas Stern, Oxford University Press, 1994.

The speech delivered by Dr. Narendra Jadhav (Vice Chancellor, University of Pune) on the 24th of February, 2007 at Rama Watumull Auditorium, K. C. College, Mumbai , under the aegis of Sheth Shantaram Mangesh Kulkarni Memorial Lecture Series.

**FINANCIAL SECTOR REFORMS
FOR
GLOBALISING INDIAN ECONOMY**

Shri Mahesh Aras, Shri Suresh Hemmady, Shri Kishore Kulkarni, Shri Shrinivas Joshi, Distinguished Guests in the Audience, Ladies & Gentlemen,

It is indeed a great pleasure as well as an honors to be here to deliver the 9th Sheth Shantaram Mangesh Kulkarni Memorial Lecture. I think two to three years ago, the then management of the NKGSB Cooperative Bank had approached me when i was very much in Reserve Bank of India. But at that time I could not deliver the lecture and it couldn't work out for personal reasons, but, I am very glad that this year, I am able to come here and talk to you and deliver this memorial lecture.

At the very outset, let me say that this lecture is giving me an opportunity to pay my tribute to NKGSB Co-operative Bank and it is a great tribute to the Founder Chairman of NKGSB Bank, a great visionary and it also gives me an opportunity to commend the management of NKGSB for their achievements in the last 90 odd years especially some of the recent achievements that were mentioned here: Strong Growth in Deposits, Strong Growth in Profits, and the reduction in Gross NPAs coming to 4.65%. As a Central Banker these items tickle my heart: Gross NP A at 4.65 % and Net NP A 0%. These figures are remarkably good. I am happy to notice what the Chairman stated: In the recent election all the Directors were elected unopposed or uncontested and I think it is a great spirit and that spirit is the strength of NKGSB Co-op. Bank building on the culture and ethos which were institutionalized by the great visionary like Sheth Shantaram Mangesh Kulkarni. So it gives me great pleasure to be here with you.

I have chosen to speak on "Financial Sector Reforms for Globalizing Indian Economy." I have been told by the organizers that it has to be a topic related to the Economy particularly Banking. So this is a combination. I am also conscious about the fact that we are shortly going to have the Union Budget for the next year. So what I want to do is to talk about in broad strokes what is happening in the economy. Globalizing is a part of it and in fact what is happening in the Indian Economy is Financial Sector Reforms that again is very much a part of it. So I want to integrate these two aspects: What is happening in the Economy and what is going to happen in the Financial Sector Reforms in the near future. Therefore when I want to integrate I have to remind myself that I am speaking to you just before the Union Budget. I think it would be very important to understand where do we stand, as a nation. There are a number of very interesting things that are happening. So in the first part of my speech I would like to

talk broadly what is happening and then come to the reforms which are an integral part of the big change.

One of the most important thing that I want to mention is that the year 1991 is the turning point in the economic history which is also a turning point in the global economic history that I think, we do not understand and appreciate fully.

Let me elaborate: In 1991 two things happened. One was that the Soviet Union, a big superpower started disintegrating and broke into a number of individual states and this Was also the time when the cold war came to an end. This was the time when the old order started changing and this was the time when the things started changing. And there were many other changes also with the revolutionary advances in computers, telecommunications and informatics. These two. major factors have really changed the shape of global economy and these two changes coming from two different areas have completely changed the world. And since then the global economy never looked back.

Mahatma Gandhi had once said, "What is constant in life is the change." But what happened in the last few years was not only the change but the pace of change that has greatly accelerated so much so that, during the last 15 years, I dare say, that the changes that have taken place during 15 years are more than the changes that had taken place in the last 150 years. So the pace of change has accelerated. So, with this, in the global economy one very interesting, second thing also happened:

The year 1991 is the year of watershed for India also, as, if we recall, that was the year when we had an unprecedented macro economic crisis. Our Foreign Exchange Reserves were less than one Billion Dollars. We had foreign exchange that was equivalent to 15 days import requirement. So we were on the brink of default. India always had an impeccable track record of honoring all the external obligations. But in 1991 when we were perilously close to the default, curiously major changes were taking place in global economy. Similar changes started taking place in India, as we were rudely woken up by this macro economic crisis. And so the economic policy based on Liberalization, Privatization and Globalization took off. If the crisis were not to come, probably we would have gone on business as usual but it came as a warning signal and a wakeup call. And so, we changed our policy. 15 years have elapsed and since then a lot of changes have taken place in the Indian Economy. There was a strong pace of change at the global level and there was a strong pace of change at our level also and these two came to us at very interesting turning points in 2000 and. 2011. It is very important to understand what happened in those two years, which was another turning point.

Look at the old economic order that had come into being. The Second World War was over in 1945. The economic order that came had one characteristic feature: There were three global leaders or engines of growth. One of course was the United States that emerged soon after the Second World War. So the United States was the first, Japan was the second and Europe was the third. These were the engines of growth and understandably whatever happened to the global economy, one of these three engines always maintained the momentum. If one of them failed, remaining two came forward. and if two of them failed remaining one would come forward to maintain the growth of the global economy. This was

all unwritten law, if I may say so. This went on for 55 long Years without a single exception. Well, there was a marginal exception. That was in the year 1974 When there was an oil crisis. But from 1945 onwards till 2000, for 55 years this was the order that was established like a law. This all changed in the year 2000. What changed in 2000? Look at these engines of growth. Most of you would know that the Japanese Economy has been going through a lot of turmoil for the last 14 years and it has slowed down and it has a negative growth for many years and it had Depression or similar effects for the last 14 years. In 2000, Japanese economy was down. What happened there, after the largest expansion in the history recorded, it started slowing down. From 1992 to 2000 United States economy was exceptionally strong and that was maintaining the global economy. From 1992 to 2000 it was strong and from 2000 it started slowing down. So Japan was down; United States was down and by the old law it should be the turn of European Economy to maintain the growth of the world economy. But it did not happen.

The growth rate in Europe during that year was only 1/2%. In 2001, the growth rate of Europe was another 1/2%--little more than 1/2% but little less than 3/4 of 1%. So peculiar was this slow down that the economists gave it a special name calling as the "Synchronized Global Slow Down" which meant that all the engines of growth were slowing down and at that time suddenly two countries have catapulted in the global arena and these two countries were India and China. That was the time when we caught the attention of the world.

China had started its reforms much earlier in 1978 when there was no crisis. We started our reforms much later 13 years later in 1991. But in 2000 and 2001, India and China catapulted in the global arena. I am happy and proud to tell you that in the last 5-6 years China and India together have emerged as a global engine for global economy, which is a very, very important change that has a significant bearing on the world now or in future. Internationally, people are reluctant to admit this reality but if you look at the growth pattern and analyze the numbers during the last 6 to 7 years, you will find that more than 1/3rd of the contribution to the global economy is made by India and China together. So we are shaping the things now in the world economy. Therefore we are no longer the takers or followers. In a way we have now become the engine of growth for the global economy-India and China together. And there is a worldwide recognition now, though reluctantly.

World over people are recognizing two things: One is that the centre of gravity of the global economy is now shifting out of United States. And where it is going? It is shifting to Asia in general and India and China in particular. More and more people are talking that the 21st Century really belongs to India and China. And this I think is the most important change that has taken place. And this is going to have a bearing on what we do now. Now India and China are in the centre stage of the world and people are talking about India becoming an economic superpower. In fact all of us know that our Hon'ble President has given us a dream that in 2020-2022 India will be a developed nation and will also be a super-power. Now these are being talked about but I remember, in 1994 in one of my speeches when I had stated that in next 30 years India would become a superpower, people were laughing. It was looking ridiculous at that time but now it has become a reality. And since then a lot of changes have taken place.

Let us see what exactly are our achievements and failures. I want to give quickly in a nutshell a balance sheet of what we have achieved and where we have failed in the last 15 years and that is going to

decide what is going to take shape in future. That will also decide our priorities in the Budget, which is about to come out.

I want to talk about the Financial Sector Reforms in the past and also in the future. Economic Reforms are 15 years old now. What we have achieved and where we have failed during the last 15 years of reform? Let me give you three achievements and three or four or five failures. I want to give positive things first and then failures because I want to give a balanced picture of where we stand.

Look at the good things: First and the foremost positive thing that has happened in India is that our growth rate has greatly accelerated. I do not want to give you too many numbers. But some numbers are essential. If you look at Indian Economy what do you see? The picture is like this: In 1947 we became Independent and in 1951 we started the so-called planned economy. From 1951 to 1980 what was the rate of our GDP Growth? Really the growth was 3 1/2% average. Some years it was more than 3 1/2% and some years it was less. But the average was 3 1/2 %. You take the average of 5 years, 10 years, 15 years or 20 years it always came to 3 1/2% so much so that some economists started calling this 3 1/2 %, as Hindu Rate of Growth because the Hindu Rate of Growth was always 3 1/2 %.

This was the old story. The GDP growth was 3 1/2 % and the population growth was 2.2%. That meant our per capita income was 3.5% minus 2.2% which came to 1.3% which was our standard of living in common parlance. If we continue to grow at 1.3% per year in Per Capita terms, how long would it have taken us to double our standard of living? It would have been 59 long years. Any banker will tell you how to calculate it. 72 divided by the rate of growth gives you the number of years to double the standard of living. And the rate, at which we were growing per capita income, it would have taken 59 long years to double the per capita income or the standard of living. See how poor it was. What did happen afterwards?

Pandit Jawaharlal Nehru one of the founding fathers, before independence had said, or the dream that was shown to us, was, "Every ten years we would like to double our per capita income." This was the target and this was the vision. In reality the rate at which we were growing for the first thirty years it would have taken 59 years to double our standard of living. When China could do it in 11 years, when Korea could do it in 13 years when Malaysia could do it in 16 or 17 years we were to do it in 59 long years to double our standard of living. This was the old pattern of growth. Let us be clear about it. Because a lot of people still dream about the socialistic pattern of society. This is what we had achieved and let us understand what were the limitations of what we had achieved, then.

What had happened after the reform after the crisis in 1991?

From the years 1991-92 to 2002, the first 10 years of the reforms, the average rate of growth was 6% plus. Then the three following years the average growth rate was 8%. This year it is 9%. And we are already talking about 10% or even 12% growth in the near future. This was unthinkable for a long time as we were stuck at the Hindu Rate of Growth. We could not envision. Anybody who was talking about 7% was called as a mad chap or the one who would not know the reality as we thought that 3 1/2 % was our fate "Bhagya"- as it would not be possible to grow more or beyond that rate. I still remember that when we grew at 7% everybody thought that it was by a fluke. When we did it again in 1994 it was to be

a hat trick or three years of 7% or three years in a row it was finally accepted. It also broke our conviction that we can make beyond 3 % %. We were at 7% at that time and to-day we are at 8% or 9% and possibly we may go up to 10%.

The second good thing that I want to convey is that we have these impressions created by people with various kinds of doctrines and in no other country in the world has more people than we have, who are beating their breasts about the poor. There are a lot of people who believed that the old policy was pro-poor and the new policies are not only anti poor but also a conspiracy to corner the poor. Lots and lots of people have this impression. But if the policies are anti poor the incidence of poverty should have increased. If they are pro-poor the incidence of poverty should have gone down. But what are the numbers? The numbers show, precisely that during the period of 'garibi hatao' from the rooftop the incidence of the poverty was the largest in India. In the decade of seventies, the proportion of Indian Population below poverty line was as large as 44% of the total population. In the last 15 years what has happened to that ratio? That has come down. Whatever people may tell, the fact is in the last 15 years under the new economic order, based on Liberalization, to some extent Privatization and globalization, we have actually succeeded in bringing down the incidence of poverty to 20 & 22% and as you know this number cannot lie. This is the second strong achievement I want to highlight.

The Third Thing I want to tell you is very close to my heart. There are a number of bankers here. You know in 1991, we came perilously close to default. I still remember on 16th May 1991 we had to actually swap our gold. Our period was running out. Our foreign exchange was just adequate for 15 days import. And nobody was prepared to give us any loans. We were running short of money and on the brink of default. And we had to do something unconventional. We were to swap 47 tons of gold and this had happened at that time. And all bankers are aware what had happened thereafter. During the last 15 years our foreign exchange reserves are bursting into the seams, And today we have more than 170 Billion \$ plus. Now we are the 6th largest holders of foreign exchange in the world not among the developing countries! Most important qualitative change is that the country that was going with a begging bowl to the International Monetary Fund every 8th or 9th year-I am not criticizing- but when the time came we went to the IMF with a begging bowl and for that country now, the situation is very comfortable. May be that you do not know. Somehow, we do not even take credit for that. But you will be surprised even to note that MS.Medha Patkar and all were telling that we were taking big loans.

Nobody wants to go to the Intensive Care Unit unless you are in trouble and we did take loans in 1991 that were fully paid back in 1997. What is important to note is that during the last three years we have become for the first time, a lender to the International Monetary Fund. The amount may not be large. Little more than One billion Dollars to lend to the poorer countries. Thus the situation is changed.

We were going regularly with a begging bowl to IMF and now we are lending to the IMF for onward lending to other countries. The amounts are small but the change is enormous. This is the positive side. Does this mean that everything is rosy?

Let us now turn to the negative side.

Here I have to give a longer list. I have given three positives and people often criticize me that I am taking pro government kind of a stance. Let me give a longer list of negatives, as everything is not rosy. You know at times we get emotionally carried away. What is the real problem that we have now?

To my mind this is not the Reserve Bank view; Pune University does not have a view and by the way, I am wearing a RBI cap and also wearing a cap of the Chief Economic Advisor of the Afghanistan Government but these are not the official assessments. These are my personal views as a student of Economics.

The most important negative in the list, which I feel, we have a peculiar situation wherein on one hand we have an accelerating growth. GDP Growth rate is accelerating from 3 1/2%, I said 7% to 8% to 9% and now we are talking about 10% rate of growth and that is juxtaposed on the other hand with the decelerating rate of job creation. This is the most serious problem that we have. Emotions apart, in reality this is the most serious problem.

On one side we have the accelerating growth rate and on the other the decelerating rate of job creation. So there is a chasm and there is a gap that is widening. This is nothing but I dare say this is nothing but a ticking time bomb. If we don't plug this gap or if we fail to plug this gap, this is going to tear down the social fabric of this country. This is the most serious problem, sir, that we have. The accelerating growth rate is fine. But against that backdrop we have the decelerating rate of job creation. The biggest challenge that this Budget is going to have is what we are going to do to fill up this gap. If we do not fill up, then we are going to be in for a real, great trouble and the social fabric itself can be eroded. So this is the first negative.

The Second Negative coming directly from the poverty is that we have succeeded in bringing the poverty ratio down from 44% at one point of time to about 22% now. Fine! This is great but the flip side of the same argument is that today we have 22% of the Indian population that is still below the poverty line. 22% of the Indian population is something like 25 cores of people. For the country, which is young and dreaming and envisioning, and the country, which is going to become an economic superpower, this is not anything that you can be proud about. About 25 cores of our own compatriots or our own brothers are below the poverty line. That is the real challenge and that is the second negative.

Regarding the third negative there can be many but let me rank them. One is of course the Education Sector where I have very strong views but let me take it up sometime later.

The third one would be inadequate investment that we have made in infrastructure. When we are moving towards the Economic Superpower, we cannot afford to have the kind of infrastructure that we have. You know what they say in America and elsewhere about Indians? Indians will explore all the solutions and then they will take something obvious right in front of you. This is the impression about the Indians that the rest of the people have. We are finally recognizing that Infrastructure is one sector that cannot sustain the growth rate. If we have to accelerate the growth rate to make India a superpower, we have to bring in massive improvement in our physical infrastructure. So that is the third challenge or the problem we have.

The fourth one is the Agriculture. Agriculture, of course, is close to the heart of many people. We feel ashamed to see the rising proportion of farmers' suicide but that is only the tip of the iceberg. Unfortunately, that it is. What it covers and what it conceals is the fact that in spite of the tall talks we have had, we have not invested, enough in the Agricultural Sector. A lot has to be achieved. If you look at irrigation, we have covered 38% of the cultivable land. 38% is irrigated. Maharashtra is supposed to be 'purogami' or a progressive state. Do you know what we have achieved? 18% to 20%. So you have not irrigated your lands. We have to ask where the money has gone. If the rain-gods are smiling at you, everything is good. When the rain-gods fail, you are in trouble and you will have the incidence of farmer's committing suicide. So there are deep-rooted maladies in Agriculture in view of the inadequate investment that we have made. That is the fourth negative.

Now the fifth one: They need not be in the same order of importance. But it is close to my heart and should be yours too and that is Education, which is going to play major role in the budget to be announced soon.

The negative here is the inadequate investment that we have made in the social infrastructure. Our track record on spending on social sector infrastructure is one of the poorest. Most of the people do not know about this. Take only education and public health. It is abysmal and this can be elaborated in many different ways. And I want to say this: We are one of the fastest growing countries in the world today. And we are very proud about it. And do you know our ranking in respect of Human Development Index? Our ranking is, we are 127th in 135 countries. We are at 127 and are at the rock bottom in the Human Index. For the country, which is talking about economic development, you cannot overlook this. Particularly the investment that we have made in social sector especially in education sector, it is very, very small. For the last 100 years we are talking about the Government spending about 6% of the GDP on education. Last 100 years we are debating on this.

In Kolhapur, Sahu Maharaj had made a law that you have to spend 6% of the kingdom's income on education. And if it was not spent the people or the office bearers were to be penalised by law. This was in 1890 and in 1966, there was Kothari Commission that made the same recommendation at the national level that 6% of the GDP should be spent on education. We have never ever spent more than 3 % %. It is a reality. So on one hand we have the tall figures like Dr.Ambedkar. We talk about Mahatma Phule. But when it comes to spending money on education, we will withdraw and we are not spending on education. And that is going to be a prime need if we are going to be an economic superpower in next 20 years. The importance of education is far more important than ever was because we are at the point of becoming a superpower.

There is a talk about India becoming a super-power. Right? What is that driving us to become an Economic Superpower? Do you know what is the most important factor? You know all these days everybody was talking about our population. They were telling that the population was a problem. Well, it is not the size that matters. What matters is the age composition of the population. And here we are very fortunate. Very fortunate, indeed. Do you know how? All the leading countries like United States, Europe or Japan and the Asian Tiger, you know all these countries have large and growing old population whereas India and China are the only two big countries that have large and growing young

population. This is our strength. I don't want to give you a technical graph etc. and it is very simple logic. If you look at the economic growth of all these countries, they did their best when they had a large and growing young population. Now they are downhill in the sense that they have large and growing old population. China has a large and growing young population. Do you know what is the average age of India today? It is 24--only 24! If we do not invest adequately on this large and growing young population, they will only add mouths and not the productivity. What is important at this critical stage is-in fact I have gone on record-whether India is going to become a superpower will critically depend upon the Education Sector. If we do not invest adequately on the Education Sector not only education, training, retraining everything, our dream to become an economic superpower will remain as a day dream-only a daydream. So this is going to be very, very important. I can go on talking more specifically about education. But I have to move to Financial Sector Reforms. Yet, the picture that we see in

Education Sector is far from heartening. Massive holes are there.

You know Pune University is one of the largest universities in the world with more than 535,000 students. We are channeling whole of our energies in experimenting certain things results of which are going to come out in the course of time. Let me not go into that. But the point that I would like to make is that the position is not comforting at all. We need large investments and major qualitative changes, without which we cannot hope to become an economic superpower.

Now let us talk about Financial Sector Reforms, which should be a part of the overall package of the other things. It cannot be separate and it is one of the components taking place simultaneously. The experience all over the world shows that, whether your reforms are successful or not depends on three things: Timing, Sequencing and Pacing the reforms. So these three things are required for the success of any reforms. I dare say that we timed very well our financial sector reforms. Pacing also is very well. I am strongly positive about the way we have conducted about the Financial Sector Reforms. We started our reforms in 1991 immediately after the crisis. If I remember correctly, the crisis was on 16th May 1991 and on 8th July 1991 the new Government with Dr.Manmohan Singh as the Finance Minister came to power and then the reforms began. We started first with containing fiscal deficit and then the reforms started one by one.

The Reforms began in the middle of second half of 1993 and our general approach at that time was to understand the reforms. Let me give quick run down of the changes that had taken place until then.

I would like to divide the financial development of our country into four different phases from independence. The first phase was from 1947 to 1967, which I name as the Foundation Phase. During this phase, the Reserve Bank of India as the Central Bank of the country enacted many, many laws to give itself powers to control the commercial banks and the financial system at large. And that was the time when all kinds of Acts were passed to give powers to the Reserve Bank as Central Bank to be at the nucleus of financial system and also to be in charge of the development of the financial system. That was the period when individual institutions were established. The system that we followed was to introduce financial institutions and once they develop, detach them into independent institutions. Institutions like IDBI, Exim Bank and NABARD were started in this way. The first Mutual Fund came into

being at that time. Like this quite a few institutions were started. The Foundation Phase is very critical in the modern financial and banking system.

In 1967 Social Banking was introduced, Social Banking was very important for the Co-operative Banks because it was recognised at that time that the things were not that way healthy in the banking system. Banking was in the private sector and there was no nationalisation and it was realised that the branches of the banks and financial institutions had concentrated in the Metropolitan and Urban places and the penetration into semi-urban and rural areas was very limited. That had created a problem and it was also clear that the loans made by the banking system at that time was heavily loaded against the sectors later called the priority sector like Agriculture, Small Industries, Small Business, Transport Sector and Exports. In fact in 1969 at the time of nationalisation of 14 major commercial banks it was clear that only 14% of the total loans at that time were given to the sectors which were deemed to be Priority Sector. That was one of the economic basis or the economic rationale as to why there was nationalisation of 14 major banks. Of course, there are political reasons also. But I do not wish to go into that.

With the nationalisation of Banks, started the second phase of Financial Sector Reforms of the financial system as a whole. What happened after nationalisation for the period from 1969 to 1985? I would like to call that as the Expansion Phase, when expansion took place around that time in the commercial banking system. Some of the figures of that time are still ingrained in my mind. The total number of branches of all the commercial banks was 8268-less than 9000 and by 1985 the total number of branches had gone up to 65000. There was a massive expansion. It was not a mere expansion that was confined to Metropolitan Centres, There was a fine-tuning of the Branch Opening Policy also. For opening one branch in Metropolitan Centre, you have to open two in Semi-Urban and may be three in rural areas. So there was a bias built in terms of encouraging opening of branches in the rural areas, and that had worked very well. By 1985, 58% of the total branches were in the rural and semi-urban areas. So that was a major change in the size as well as the composition and distribution of branches.

Very good things happened with nationalisation but not without bad things, too. The worst thing that happened was the overzealous branch expansion and so the lines of control from the Central Office to the Branches became progressively weaker. That was how NP As came and both Net and Gross NPAs increased. The problem was identified and the accent suddenly changed. And that happened in the third phase 1985 to 1991, which I call as Consolidation Phase and incidentally that coincided with the tenure of one of my favorite Governor's, Shri R.N.Malhotra. At that time consolidation was required because after the prolonged expansion from 1969 to 1985 there was a qualitative change also from class banking to mass banking. But there were negatives, which I have mentioned. The system entailed the third phase from the year 1985 to 1991 which I call as a consolidation phase because during that period which coincided with R.N.Malhotra's tenure, the focus was not on further expansion but on consolidation, putting the house in order. That was the time when Health Code for Bank Loans was introduced. And that was the time when the view taken was rather than expanding "how do you do the things better" and that was under the Phase of Consolidation from 1985 to 1991.

Then came the Final Phase of 1991 onwards. I call that as the Financial Sector Liberalisation and that phase still continues. A number of H:lings have happened at regular intervals. Let me give an overview of all that has happened in this final stage of Financial Sector Reforms.

There are many components of reforms but some of the most important ones that come to my mind are the CRR and SLR which had reached to unprecedented levels and they were systematically brought down so that the banks could have more lendable resources, which gave banks more autonomy and more freedom to use their lendable resources. In 1991 we were in a very peculiar situation. Do you know what was the pre-emption of resources done at the behest of the Government? 63.5%. CRR was at 15% and the incremental CRR was at 10% and thus CRR was at 25% including the incremental CRR. The CRR is the money that you have to keep with the Reserve Bank of India. The secondary ratio, SLR, the Statutory Liquidity Ratio was at 38.5%. Thus for every Rs.100/-- the banks collected as deposits 63.5% was pre-empted into either Bank Reserves or Investment in Government Securities which at that time were yielding very low at 4.6% to keep the cost of Government Borrowing low and it was compulsory to invest in Government Securities. Thus there was a huge pre-emption of resources. The changed policy systematically brought down SLR to 25% and CRR is brought down to about 5% (of course now again it is increased to 5.5% for the monetary policy reasons) But the stated objective is to bring CRR down to about 3% in the course of time. This is one major change.

The other qualitative change was allowing the private sectors to run. That happened in the year 1993. There were private sector banks earlier also but in 1993 we reintroduced private sector banks. A number of private sector banks came into being. And we now see them competing successfully with each other and they have a larger and larger market share and that is happening at the expense of large public sector banks who are now putting their acts together and are competing successfully with the private sector banks too and there is a sort of healthy competition that is introduced in banking. That is the second change. There are many changes but now I would like to mention something, which is little technical, but I will give a gist of it:

For a very long time, the Monetary Policy in India was subservient to Fiscal Policy in a sense that the Reserve Bank had become a 'kamadhenu' for the Government. The basic reason for that was, by law, in the Account the Government keeps with the Reserve Bank you have to maintain certain balance, that is incredibly small. Only Rs.50 crores. To maintain that balance in 1955 somebody came up with an idea. If the Government wants to issue a cheque, they told the Reserve Bank to create an adhoc-treasury bill and credit the account of the Government with the Reserve Bank. What had started with a trickle had grown in to a huge flow over a period of time. What was the amount of the adhocs that were issued? In 1955 it was a small amount of Rs.50 Crores but in 1991 it became a huge amount of about Rs.400,000 Crores. This much of Adhoc Treasury Bills were created because the fiscal deficit was widening and to a large extent the Reserve Bank was funding fiscal deficit. That is why I said, Reserve Bank was 'Kamadhenu'

One of the most important things that had happened in 1993 was the Reserve Bank gradually but very systematically and definitively reduced the dependence of the Government on it for meeting their deficit. This is very important because, if the Government spends money in this way, and if this were to

continue, there will be too much of money or liquidity chasing too few a goods and then there will be an inevitable inflation which will be the most inequitable form of taxation that hurts the poor most. To avoid that gradually, there were series of agreements between the Reserve Bank and the Government to reduce the dependence of the Government on RBI for funding its own fiscal deficit.

Then we also encouraged and played a pivotal role in the Government coming up with the fiscal responsibility and the budget management. And by law the Fiscal Deficit is to be contained and by the year 2008-2009, the deficit is to be brought down to 3% of the GDP and Revenue Deficit to reach the level of '0'. Thus the way has been paved for the Reserve Bank to run the Monetary Policy of its own and not by being subservient to Fiscal Policy. Earlier it was not so. The fiscal policy determined the Monetary Policy that was all the time mopping up the resources for the Government and that has been over. I think these are the changes that have made the Monetary Policy coming of its own and it is no longer subservient to Fiscal Policy.

Where do we go from here?

We look at the financial sector reforms like all other reforms as a process rather than an event. Therefore we do not go for a thing like big bang doing big things all of a sudden. We do it gradually. Some people believe that we do it too gradually, but I think we should look at longer-term view from 1991 to until now. There is a systematic change in the Financial Sector Reforms. In future, I think Reforms should be even more active in terms of keeping the economy in good stead to achieve its declared goal of reaching an economic super-power.

I think Co-operative banks like NKGSB have a major role to play and I am sure, this role would be played with a great tradition of excellence that the NKGSB Co-op. Bank has had. I am sure in future, this Bank will play a growing role, its coveted role in terms of co-operative banking. I am going to say that with the tradition, which was laid down by Sheth Shantaram Mangesh Kulkarni as the Founder Chairman, the ethos and the culture that has been created, is going to hold the NKGSB in good stead in these times of big change. And the change taking place in management in the style of new management in handling and grappling with the situation.

I think future belongs to us. It all depends on us. How are we going to put our act together to grapple with the change and seize the opportunity and to convert challenges into opportunities for the benefit of the institution, for our bank, for our shareholders, for our individuals, and for the society at large.

I think it is possible and I certainly hope and pray that NKGSB Bank will be able to achieve that with the great tradition of excellence that you have already established. I see no reason why that is not possible. That should be possible and I come here to tell you that looking at the excellent track record of the team and of the bank for the last 90 years, there is certainly a lot to cheer about in future.

I wish the progress of NKGSB Co-op. Bank Ltd. all the very best in future and I also wish all of you the very best.

I thank the organisers for having given me this opportunity to come here and share some thoughts on Globalising Indian Economy and also the Financial Sector Reforms therein.

Thank you very much.