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# **Competition in financial sector & Competitiveness of Indian financial markets**



R.Gurumurthy  
Institute for Indian Economic Studies  
Waseda University  
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# What drives competition?

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- Competition as a pillar of competition
- Pros and cons of competition
- Urge to excel or *kiasuism* ?
- Levels of competition viz., *brand*, *substitute* and *budget*
- Desirability of competition in financial sector industry
- Intra industry and industry level competition
- Subtleties in international competition
- Country specifics and the level of compatibility between *financial inclusion* and *efficiency*

...not to forget the socio economic needs ...

# Competitiveness in Indian financial markets

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- Erstwhile financial repression and reforms
- Deregulation and the fiscal stance support
- Banking sector
- Securities market
- Other market infrastructure and developmental initiatives

# Interest rates and inflation



Year#	Weighted Average interest rate on Central Government securities	Inflation rate as measured by WPI
1980-81	7.03	18.2
1990-91	11.41	10.3
1995-96	13.75	8.0
2000-01	10.95	7.2
2005-06	7.34	4.4

# Banks - Gross NPAs



Year	SCBs	PSUs	OPSB	NPSB	FB
1996-97	7.0	7.8	5.2	1.3	2.1
2000-01	4.9	5.3	5.1	2.1	3.0
2004-05	2.5	2.7	3.2	1.6	1.4
2005-06	1.9	2.1	2.5	1.0	0.4

# Net NPAs



Year	SCBs	PSUs	OPSB	NPSB	FB
1996-97	3.3	3.6	3.1	1.0	0.9
2000-01	2.5	2.7	3.3	1.2	0.8
2004-05	0.9	1.0	1.4	0.8	0.4
2005-06	0.7	0.7	0.9	0.4	0.4

# Growth of commercial banking in India



	1969	1980	1991	2005
Number of Commercial banks	73	154	272	288
Number of bank branches	8,262	34,594	60,570	68,339
Population per office ('000)	64	16	14	16

# Indicators of financial sector (2005)



Indicator	OECD average	India
Bank Deposits/GDP	0.80	0.51
Financial system deposits/GDP	0.84	0.53
Private credit by deposit money banks/GDP	0.99	0.36
Private credit by deposit money banks and other financial institutions/GDP	1.02	0.34
Bank concentration #	0.68	0.37
Net interest margin	0.030	0.034
Bank overhead costs/total assets	0.034	0.024



# Indicators of financial sector (2005)..



Indicator	OECD average	India
Stock market capitalisation/GDP	0.75	0.50
Stock market total value traded/GDP	0.68	0.60
Stock market turnover ratio	0.84	1.16
Private Bond market capitalisation/GDP	0.39	0.005
Public bond market Capitalisation/GDP	0.47	0.32
Life insurance premium volume/GDP	0.049	0.025
Non life insurance premium volume/GDP	0.033	0.007

# Securities market

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- National Stock Exchange – satellite networking, brokers as franchisees, novation, settlement guarantee, screen based trading, online surveillance
- Pre and post trade transparency – to facilitate price discovery and supervisor's capabilities
- Depository and clearing corporation
- Internet trading
- Where are the Indian stock exchanges

# Impact cost – equity spot market

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	2002	2003	2004	2005
NSE-NIFTY (for Rs. 5 million)	0.12	0.10	0.09	0.08
NSE –NIFTY Junior (for Rs.2.5 million)	0.41	0.32	0.31	0.16

# Primary markets –Resources raised



(Rs. billion)

	2002	2003	2004	2005
Debt	45.49	52.84	23.83	0.66
Equity	24.20	28.91	334.75	303.25

# Government bond market

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(Rs. billion)

	2002	2003	2004	2005
Gross issuance	1,202.13	1,130.00	1,195.00	1,293.50
End year market capitalisation	6,551.48	9,599.03	9,963.41	10,515.21
Turnover ratio	197.48	16.48	107.48	71.42

# Other developments

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- Negotiated dealing system
- Clearing Corporation of India
- Real Time Gross Settlement
- Shift to market based monetary policy tools
- Exchange rate regime and forex reserves
- Insurance and pension industry
  
- Conclusions

# Data source

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- Reserve Bank of India
- Economic Survey, 2005-06 – Government of India
- Federation of World Exchanges
- World Bank



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Thank you