Global financial development report

Why in news?

\n\n

World Bank's has released its annual Global Financial Development Report 2017-18, Bankers without Borders.

\n\n

What is the global financial development report?

\n\n

\n
- Global Financial Development Report 2017/2018: Bankers without Borders is the fourth in a World Bank series.
\n
- It provides a unique contribution to financial sector policy debates, building on novel data, research, and wide-ranging country experience, with emphasis on emerging markets and developing economies.
\n
- The report's findings and policy recommendations are relevant for policy makers, staff of central banks, ministries of finance, and financial regulation agencies.
\n
- The report tracks financial systems in more than 200 economies before and during the global financial crisis.
\n

\n\n

Why this report is globally relevant?

\n\n

\n
- After the global financial crisis of 2007-08, as governments and regulators recognised and began to address the dangers of large and complex banking

and financial structures.
\n

- But they largely missed the argument that opening up the financial sector to foreign players was important to boost efficiency and bring sophisticated products to local customers.
\n
- Many global banks were hard at work trying to beef up capital and restructure businesses, shutting operations in some countries, and generally maintaining a relatively low profile.
\n

\n\n

What are the findings of the report?

\n\n

\n

- Restrictions imposed on foreign banks in developing countries are hampering prospects of growth by limiting the flow of much needed finance to firms and households.
\n
- International banking does create risks of exporting instability especially for countries with poor regulations and institutions, and those risks need to be mitigated.
\n
- But without a competitive banking sector, the poor will not be able to access basic financial services.
\n
- Many businesses will be locked out of markets, and growth in developing countries will stall.
\n

\n\n

What are the implications for India?

\n\n

\n

- Indian banking has become more competitive over the last couple of decades has largely to do with the opening up of this sector to local private banks in 1993-94.
\n
- The larger policy goal that the government and the central bank had in mind could not perhaps be achieved immediately because of the public ownership and governance structure of state-owned banks.

\n

- Besides public and private banks, Non-Banking Financial Companies (NBFCs) and Microfinance Institutions (MFIs) too have rapidly enlarged their footprint over the past decade.

\n

\n\n

What measures India had taken so far?

\n\n

\n

- India adopted a guiding principle of consolidating public and private banks before opening up to foreign banks in a synchronised manner.

\n

- The approach has been to have foreign banks form fully owned subsidiaries, or to convert existing branches into a subsidiary.

\n

- Foreign banks at various growth cycles have shrunk their businesses in a downturn or when there is turmoil, and the need for credit is acute.

\n

- India has sought to limit the share of foreign banks in the total assets of banks in the country to less than a fourth.

\n

\n\n

\n\n

Source: Indian Express

\n