Global financial development report

Why in news?

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

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What is the global financial development report?

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- Global Financial Development Report 2017/2018: Bankers without Borders is the fourth in a World Bank series.
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- 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.
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- The report's findings and policy recommendations are relevant for policy makers, staff of central banks, ministries of finance, and financial regulation agencies.
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- The report tracks financial systems in more than 200 economies before and during the global financial crisis.
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Why this report is globally relevant?

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- 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.
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- 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.
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- 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.
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What are the findings of the report?

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- 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.
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- International banking does create risks of exporting instability especially for countries with poor regulations and institutions, and those risks need to be mitigated.
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- But without a competitive banking sector, the poor will not be able to access basic financial services.
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- Many businesses will be locked out of markets, and growth in developing countries will stall.
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What are the implications for India?

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

footprint over the past decade.
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What measures India had taken so far?

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- India adopted a guiding principle of consolidating public and private banks before opening up to foreign banks in a synchronised manner.
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- The approach has been to have foreign banks form fully owned subsidiaries, or to convert existing branches into a subsidiary.
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- 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.
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- India has sought to limit the share of foreign banks in the total assets of banks in the country to less than a fourth.
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Source: Indian Express

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