

G.3- T.T. RAM MOHAN, Banking Reforms in India: Charting a Unique Course, *Economic and Political Weekly*, March 31, 2007, pp. 1109-1120.

The present paper analyses the various aspects of banking sector reforms carried out in India, examines the impact of reforms using various parameters and explores the factors underlying the improvement in performance. The public sector banks have shown a remarkable transformation in the post-reform period. Profitability is comparable to international banks, efficiency and stability have improved and there is a convergence between Public Sector Banks and private banks. But the PSBs will be severely tested as disintermediation proceeds apace on both the asset and liability sides. Their survival depends on their ability to rise to the challenges ahead. Both unions as well as government in its capacity as owner have an important role to play in ensuring that PSBs are well prepared to meet these challenges. One lesson that emerges from the Indian experience with bank reforms is that there is virtue in organizational diversity and it pays to have different business models in a given setting. The paper suggests that the system gains when there is diversity in ownership- public, private, foreign. Hence, it would be tragic if the gains we have made by charting a unique course in bank reforms were sacrificed at the altar of ideology.

Siba Prasad Tripathy

G.3- EPW RESEARCH FOUNDATION, Will Basel II Norms Slow Financial Inclusion, *Economic and Political Weekly*, March 17, 2007, pp. 904-910.

This paper focuses on the potential impact of adoption of Basel II norms on the goal of financial inclusion in India. It is argued that the Basel II norms, which will cover all banks by March, 2009, will introduce tightly controlled and comprehensive coverage of risks that could undermine financial inclusion. The research methodology is based on statistical data analysis using financial data, including data on money markets, foreign exchange markets and debt and securities markets from the RBI and other media sources.

The authors conclude that the norms, per se, may not be against

the spread of bank lending to those who are now excluded. However, given the inherent biases inherent within the banking system, the norms may provide a convenient excuse for a half hearted approach of banks towards financial inclusion. In fact, it is emphasised that the serious inter-regional, inter-class and inter-sectoral disparities in banking services in India call for a calibrated balancing of prudential norms and the provision of genuinely inclusive and regionally well-spread services.

Ananya Ghosh Dastidar

G.3- CHANDANA DAS and A. GHOSH, Bank Deregulation and Bank Solvency: A Macro View, *Indian Economic Review*, Vol. XXXXII, No. 1, 2007, pp. 19-40.

This paper makes an attempt to make a theoretical analysis of the linkages between bank deregulation and solvency. Many developing countries have adopted the programme directed or regulated credit to achieve the socially optimum allocation of credit. Dismantling of this directed credit programmes is being as one of the major aspect of financial sector liberalisation that many of these countries are pursuing. The advocates of this liberalisation regime argue that the directed credit programme generates inefficiency and low rates of saving which makes the banking services unprofitable and if the banks continue with such a state, they eventually becomes bankrupt or insolvent.

This paper borrows theoretical traditions from the structuralist and new Keynesian schools to construct a theoretical example to show that, if allocation of bank credit conforms to the pattern of social profitability, a part of the additional gain to the society may accrue to the banks as well in the form of additional profit to the society as a whole. The authors have developed a model of small open economy with typical features of developing economies and make a comparison of bank profits under free market conditions and under directed credit programme. Based on these analyses, the paper argues that under certain macro-economic conditions the programme of directed credit that seeks to maximize social welfare might also raise aggregate bank profit substantially above the level that it attains in free market equilibrium.

Bibhu Prasad Nayak

G.3- PRAVAKAR SAHOO and BIBHU PRASAD NAYAK, Green Banking in India, *The Indian Economic Journal*, Vol. 55, No. 3, Oct.-Dec. 2007, pp. 82-98.

Sustainable development can best be achieved by allowing markets to work within an appropriate framework of cost efficient regulations and economic instruments. One of the major economic agents influencing overall industrial activity and economic growth are financial institutions such as the banking sector. Therefore, the banking sector can play a crucial role in promoting environmentally sustainable and socially responsible investment. This paper explores the importance of Green Banking, sites international experiences and highlights important lessons for sustainable banking and development in India.

The data on status of pollution control in 17 categories of industries in India has been taken from Lok Sabha Unstarred Question No. 2241, dated 18.03.2002; Annual Report 2003-04, Ministry of environmental and Forests, Government of India; and Lok Sabha Unstarred Question No. 3581, dated 15.05.2006. Whereas the data on sustainable banking award 2006 has been taken from Willem Van Gelder, Profundo May 2006, Bank Track.

This paper argues that, in a rapidly changing market economy where globalisation of markets has intensified the competition, the industries and firms are vulnerable to stringent public policies, severe law suits or consumer boycotts. This would affect the banks and financial institutions to recover their return from investment. Thus, the banks should play a proactive role to take environmental and ecological aspects as part of their lending principal which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems. As far as Green Banking in India is concerned, the banking and financial institutions are running behind the schedules compared to global trends. None of them are a signatory to the UNEPFI (United Nations Environment Programme Finance Initiative). It is time now that India takes some major steps to gradually adhere to the equator principles-guidelines that use environment-sensitive parameters, apart from financial, to fund projects.

Renu Baldodia

G.3- SAIBAL GHOSH, A Theoretical Analysis of Depositor Discipline in Banking with Reference to India, *Artha Vijnana*, Vol. XLIX, No.1, March, 2007, pp. 29-52.

This paper develops a model that incorporate the twin features of deposit discipline and regulatory structure and examines the effects of several parameters on the optimal decision making process of the bank. In recent years there is an increasing emphasis on depositor discipline as a mechanism to augment Government oversight (discipline) of the financial sector, specifically depository institutions. Despite the abundance of empirical research on this score, limited theoretical analysis has been forthcoming on the issue.

Market discipline in banking is a process by which investors assess changes in bank risk and take actions leading to the adoption of measures needed to control the institution's level of risk and the depositor discipline usually takes one of two forms: direct and indirect. Specifically this paper attempts to asses depositor discipline and relate the findings to the reforms in the Indian Banking Sector. Accordingly, it develops an analytical set up.

This paper focuses on direct depositor discipline defined in terms of risk of the bank's assets and its capital structure on the cost of its funds. In addition the 'degree of depositor' discipline is measured as the elasticity of the cost of uninsured deposits with respect to bank equity, adjusted for the risk of the bank's assets. Within the stylized model of the optimal bank behavior the characteristics of regulatory structure and depositor are also incorporated in this paper. The model finally derives the effects of seven parameters on the optimal level of capital and insured deposit rate and relates them to the Indian banking sector. The findings indicate that with non-binding capital constraint an increase in the insurance premium and the degree of depositor discipline will result in greater amount of equity of the bank and lower interest rates on insured deposits.

Kapil Das Baksi

G.3- SHAH DEEPAK, Banking Sector Reforms and Co-operative Credit Institutions in Maharashtra: A Synthesis, *Agricultural Economics Research Review*, Vol. 20, No.2, July -December 2007, pp. 235-254.

The main purpose of the paper is to assess the credit flows through the co-operative across all the districts and regions of Maharashtra and their sustainability, viability and operational efficiency. The data is collected from various secondary and official records for the period (1980-2000). The effect of various factors affecting changes in loan advances through Primary Agricultural Cooperative Credit Societies(PACS) in Maharashtra is estimated through R^2 using only linear specification while the viability of credit institutions are evaluated through estimation of breakeven levels of their loan advances and deposits and various financial ratios.

The finding reveals that slow growth in institutional finance through credit cooperation during the decade of economic reforms (1991-2000) as compared to the decade preceding it. Slower growth has also been observed in the membership of credit cooperatives in Maharashtra during reform period. On the contrary, outstanding loans are growing at a much faster rate as compared to loan advances during both pre and post economic reform period. The empirical evidence shows the languid attitude of PACS towards SC/ST. Another issue which needs to be taken care of is escalating over dues and Non Performing Assets (NPAs) of the cooperatives operating in both forward and backward regions of Maharashtra. The author articulates that in order to pump up the rural credit flow through cooperatives, the major problem faced by the system can be shouldered with more fiscal jurisprudence.

Archana Dang