

**PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA**

**TEXT OF THE SPEECH OF FINANCE MINISTER WHILE ADDRESSING
THE VALEDICTORY SESSION OF FT-YES BANK “INTERNATIONAL
BANKING SUMMIT” THROUGH VIDEO CONFERENCING**

New Delhi: Karthika 25, 1933

November 16, 2011

Following is the text of the speech of Union Finance Minister, Shri Pranab Mukherjee while addressing the Valedictory Session of FT-YES Bank “International Banking Summit” being held in Mumbai through video Conferencing from his office in New Delhi:

“I am very happy to join you all at this valedictory session of the first Financial Times-YES Bank International Banking Summit, even though it is only in a virtual sense. Let me begin by congratulating Dr. Rana Kapoor and his partners for organizing this summit and bringing together distinguished panel of bankers, financial experts, investors, policy makers and regulators to deliberate on contemporary issues of relevance to India’s growing financial sector. I am happy to see the themes such as banking reforms, cross-border strategic alliances and rural development and financial inclusion that you have addressed in your discussion over the two days of the summit.

The Indian financial sector has seen significant transformation, rapid growth and global integration over the last decade. The banking sector has shown great resilience in the course of the global financial crisis and its continuing aftermath. The fact that India has not gone through any major financial turbulence, as a result of the earlier phase of financial deregulation is a testimony to our consistent view that reforms in global standards have to be adapted to local conditions.

The economic reforms initiated during the early 1990s have borne good results for the Indian economy. The economy has moved on to a higher growth trajectory, with improved fundamentals and resilience to external and domestic shocks.

The basic objective of the financial sector reforms has been to promote a diversified, efficient and competitive financial system, with the ultimate objective of improving the allocative efficiency of resources. This has been sought by ensuring greater operational flexibility, improved financial viability and strengthening of regulatory institutions. The reforms were carefully sequenced in respect of policy instruments and in terms of specific objectives that had to be addressed.

We have taken steps in recent months, to take this process forward. Legislations have been introduced in the Parliament to address some issues in the financial sector including insurance, banking, and pension sectors. We have set up Financial Sector Legislative Reforms Commission to review financial sector laws with the objective of bringing them in tune with current requirements and global best practices. An apex-level Financial Stability and Development Council has been established and is functioning to strengthen and institutionalize the mechanisms for maintaining financial stability and improving the inter-regulatory coordination.

In the post- crisis period, financial stability has become an integral part of policy discussions and macroeconomic objectives globally. A sound and resilient banking sector, well-functioning financial markets, robust liquidity management and payment and settlement infrastructure are the pre-requisites for financial stability.

The second generation reforms currently underway build on the reforms over the past two decades. It includes the recent deregulation of the savings interest rate, discussions on mode of presence of foreign banks and the process to give additional banking licenses to private sector players. These steps seek the transformation of the Indian banking sector into a reasonably strong, diversified and resilient system with significant opportunities for growth.

The evolving circumstances present several challenges in the short to medium-term. We need to sustain the momentum of expansion in domestic banking services, even as global growth is weak and is laden with uncertainties. The possibility of systemic impact of sovereign debt crisis in Euro-zone countries on international financial markets is a looming reality. We also need to overcome domestic concerns including

those related to capitalization issues of the public sector banks and the threat posed by their growing non-performing assets.

The aim of Basel III is to improve banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spill-over from the financial sector to the real economy. Basel III also seeks to strengthen micro prudential regulations which will help raise the resilience of individual banking institutions in periods of stress. Sufficient cushion is available with Indian banks to absorb the enhancement in the equity and Tier I capital requirements as per Basel III. Following my Budget Speech 2011-12, the Government is committed to enable Public Sector Banks to maintain a minimum Tier-I CRAR of 8 per cent.

As banking becomes more sophisticated in a complex globalised market, there is a need for improving the skill and knowledge set of bank employees. There has to be a constant effort to understand the functioning of the financial markets, the best practices that underpin the creation of new financial products and the related oversight issues, so as to promote financial stability for sustained growth.

As part of the efforts to ensure convergence of the Indian Accounting Standards (IASs) with the International Financial Reporting Standards (IFRSs), a roadmap for convergence of IAS with IFRS for banking companies and non-banking financial companies (NBFCs) has been finalized.

Financial inclusion is an important development priority of the Government. Only about 38 per cent of Scheduled Commercial Bank branches are in rural areas and just about 40 per cent of country's population has bank accounts. We are presently working towards covering around 73,000 villages with a population of 2000 or more by March 2012 under our financial inclusion initiative. As of September 2011 we have already covered 40,000 villages.

Up-scaling of financial inclusion efforts is essential for banks, as it embodies the potential for augmenting growth prospects in terms of enhancing bank savings and financial deepening. At the same time it would contribute to a more inclusive development of the economy.

Expansion in banking services is a critical ingredient for sustaining high economic growth. Entry of new banks, both Indian and foreign, would increase competition in the banking sector with attendant benefits in the form of improved efficiency in banking intermediation and

encouraging product innovation and development. These in turn would contribute to better growth prospects for the banks and the economy. Indian Banking has to be receptive to and proactive in harnessing this opportunity.

Let me conclude by thanking the Financial Times and YES Bank for giving me this opportunity to share some of my views with distinguished participants who have given me a patient hearing. I hope your deliberations at the Summit have been fruitful. I look forward to the outcomes of your discussions. I wish you all the very best in your endeavours.”

DSM/GN