REPORT ON THE FIFTH ANNUAL CONFERENCE ON MONEY AND FINANCE IN THE INDIAN ECONOMY.

The *Fifth Annual Conference on Money and Finance*, held at Indira Gandhi Institute of Development Research (IGIDR), Mumbai from 30th of January to the 1st. of February, was organized with the objective of assessing the progress achieved with regard to financial liberalization and monetary policy, and to identify new topics in this area. The rapid changes make this a challenging and fruitful field of research. As in the preceding four years, the conference sought to provide a forum for academicians, policy makers and practitioners to exchange their views, learn from each other, and to engage in some serious and cautious thinking. This report aims to give a flavour of the quality and quantity of these interactions.

Rakesh Mohan, Deputy Governor, RBI, assumed the chair in the inaugural session and **Mohsin Khan, Director, IMF Institute**, delivered the keynote address. After a welcome address from RK Radhakrishna, director IGIDR, Ashima Goyal, of IGIDR, gave an overview of experience with past money and finance conferences and the objectives for this one. She said the conference series had achieved some success in its aims of capacity building through emphasis on quality, professional standards, national and international networking. A round table had been started, in addition to contributed paper sessions, as part of the conference since last year. Then the topic chosen had been monetary policy and this year it was market institutions, and their role in maximizing the contributions of finance for growth.

Rakesh Mohan highlighted the need for effective monetary policy, given the turbulence that large-scale global capital movements have imparted to emerging market economies. He enumerated a number of steps that the RBI has taken to meet this challenge, including the latest move to open the government securities market to retail investors. He also indicated how the debate had moved over from attrition of forex reserves to accretion of the same. Discussions according to him now revolve around the costs of holding reserves and gauging if it has generated any arbitrage opportunities.

Mohsin Khan delved into the intricacies of design and conduct of monetary policies. He began with the two issues that are relevant to monetary policy actions, viz., dynamic inconsistency and the debate over rules vs. discretion. He spoke of the need for an effective nominal anchor in order that monetary policy can promote growth by minimizing the costs arising from destabilized prices. In this context, he related the success story of inflation targeting in many countries and the pre-conditions it requires. He cautioned against its use in times of downturns and also in economies without sound macroeconomic fundamentals. If one goes by the number of questions and reactions that he elicited, his presentation generated a lot of interest in the audience. Subrata Sarkar, of IGIDR, acknowledged the high quality contributions in his *vote of thanks*.

The **opening session** addressed some open economy issues, with M. J. Manohar Rao, of Mumbai University, in the chair. Three papers were presented in this session. The first paper titled, "Debt Resolution Processes for Sovereign Debt - Current Policy Issues", by Elmar B. Koch from the Bank of International Settlements, analyzed in depth the ongoing debate concerning contractual and statutory approaches in dealing with the resolution and restructuring of sovereign debt. Koch was of the opinion that both the approaches are complementary and that although the statuary Sovereign Debt Resolution Mechanism (SDRM) is a longer term proposition, what should actually be vigorously pursued is the contractual Collective Action Clauses (CAC's), given the complexities that implementation of SDRM would entail.

Ashima Goyal, in her paper titled, "Exchange Rate Regimes: Middling Through", showed using cross-country data that developing countries have an increased preference for intermediate exchange rate regimes, and volatility of exchange rates is higher and interest rates lower with current managed float regimes. Her theoretical model accounted for these stylized facts since in it, if central banks lowered exchange rate volatility and smoothed interest rates, fundamentals improved, and foreign exchange markets deepened. Monetary policy independence was attained even with greater capital mobility through a fall in noise trading. She argued that short-term pre-announced central bank interventions were feasible.

Alim Baig who presented a theoretical model in, “Exchange Market Pressure and Intervention Activity of the Reserve Bank of India”, jointly developed with Vathsala Narsimhan, analyzes the exchange market pressures and intervention activity of the Reserve Bank in the post-crises period. The study revealed that the RBI did manage the exchange rate volatility, intervening in order to keep the rupee mildly depreciating while aggressively controlling appreciation. He suggested that building up foreign exchange reserves seemed to have been an important objective of the RBI.

Manohar Rao after crisply summarizing and commenting on Elmar Koch's paper, and thanking the authors for three excellent papers, initiated the discussion on the papers. The exchange of views after the presentations was quite informative. Romar Correa, of Mumbai University, as the discussant for Ashima Goyal's paper congratulated the author making unconventional connections in a completely rigorous way, and offered useful suggestions on aspects of the modeling. Mridul Sagar of the RBI as Baig's discussant, remarked that the deepening level of analysis over the years in MFC papers demonstrated the success of the conference. He suggested that Baig's study could be carried out using data at a more disaggregated level.

The third session chaired by Ashok Parikh had as its focus the role of monetary policy in attaining price stability. The first in the series was a paper presented by Naveen Srinivasan of Cardiff Business School, entitled,“ The Sub-Optimality of the Opportunistic Approach to Disinflation”, jointly written with Patrick Minford. The objective of the paper was to make a comparison between the two approaches to disinflation, deliberate and opportunistic. The presenter suggested that although the latter, which involves asymmetric policy responses to shocks, had achieved some credence in recent years, it was primarily sub-optimal as far as the goal of macroeconomic stability is concerned. Its popularity was attributed to no theoretical rationale but to purely political economy considerations. The presentation was followed by some discussion, initiated by Romar Correa, on the definition of opportunism adopted in the paper, as there are varying definitions of the same in the literature.

Focus moved on from the role of monetary policy to how openness can influence inflationary processes with Sunil Ashra's (FORE School of Management, New Delhi) paper entitled, "Inflation and Openness: A Study of Selected Developing Countries", which suggested that the traditional closed economy monetarist and structural explanations for inflation were inadequate. His panel study of 15 economies with different groupings revealed that openness is negatively related to inflation and that export to GDP surprisingly moved with inflation. The discussion initiated by Rupa Regenitsure of ICICI Bank resulted in a suggestion for a more localized study on the issue and apprehensions as to the use of both export to GDP and import to GDP as control variables in the same model were expressed.

Inflation targeting and the concerns with its applicability in India was once again echoed in a paper entitled, "Determinants of Inflation in India and Scope of Inflation Targeting", by Bhavana Sharma of ICICI Bank, who developed a model to determine the factors affecting inflation and to forecast inflation on a monthly basis using Time-series techniques. She concluded that money supply, primary good prices, fuel prices and exchange rate changes were the major determinants of inflation in India. The constraints that India faces in going for inflation targeting was reiterated. The discussant, Ashok Parikh and the other participants expressed some apprehension as to whether the components of inflation could be used as explanatory variables. The author was also asked to incorporate seasonal dummies in her analysis.

The next two sessions ran parallel to each other, one chaired by Ganti Subramaniam, former Director of the National Institute of Bank Management and other by Rajendra Vaidya of IGIDR. Although a presentation on monetary targeting in India by Deba Prasad Rath of the RBI could not materialize due to the author's absence, the rest of the presentations went on smoothly. The paper entitled, "Business Cycle Asymmetry and Seasonality: Stylized Evidence from Indian Economy", by Narain Sinha and Lokendra Kunawat of the University of Rajasthan, concentrated on the methodological issues related to business cycle asymmetry. The paper was presented as the first empirical examination of asymmetry issues with respect to the macroeconomic time-series for the Indian economy. The paper considered twelve macro-variables at different frequencies and tested for two dimensions of asymmetry- deepness and steepness.

The next paper entitled, "Causal Relationship between Stock Market and Exchange Rate, Foreign Exchange Reserves and Value of Trade Balance in India: An Empirical Analysis", by Basabi Bhattacharya and Jaydeep Mukherjee of Jadavpur University, examined the causal relationship between stock prices and certain foreign sector macro-economic aggregates in the post-liberalization era, using time-series techniques. The study, based on the efficient market hypothesis, concluded that there is no causal linkage between stock prices and three variables, namely, exchange rate, forex reserves and the trade balance. Ajit Karnik of Mumbai University initiated a discussion as to which form of the efficient market hypotheses was being tested and also whether a study of this nature could be done when the markets are not deep and efficient followed the presentation.

A post-reform feature of investment has been a steady rise in Foreign Institutional Investors' investment in India. The paper by Pushpa Trivedi and Abhilash Nair of Indian Institute of Technology attempted to pin down the determinants of FII investment and concluded that returns and not either volatility or desire to diversify the portfolio is the primary determinant of FII investment flows into India in their paper entitled, “Determinants of FII Investment Inflow to India”. The discussion that followed indicated there could be other determinants than those that came under the purview of the study, like the increase in FII being a global phenomenon and role of exchange rates in creating arbitrage opportunities. The discussant, Sunil Ashra, added that a proxy to control for the fact that the rules for FII have changed should also be included.

Pradeep Agarwal of the Institute of Economic Growth presented the paper “Savings and Growth in Bangladesh – Does Banking Sector Development Help Improve the Saving Rate?” (jointly with Pravakar Sahoo). The authors attempted to isolate the determinants of savings and its relation to growth with regard to Bangladesh, and also determine the direction of causality, using time-series techniques. The main findings were that the total savings rate is mainly determined by GNP growth rate, dependency ratio and interest rates while the private savings rate is also affected by banking sector development and the public savings rate and that there is a unidirectional causality running from economic growth to total as well as private savings. The discussant, R. Krishnan of IGIDR felt that banking sector development, inflation, remittances from abroad, social factors and other structural changes were not sufficiently incorporated in the model.

A relatively new concept of “Supply-chain management in retail banking and ATMs”, was the subject of the presentation by Anirban Mukherjee and Anindya Roy of NMIMS, Mumbai. The quest of banks to find techniques to forecast the demand for cash so as to optimally utilize cash was addressed. The presentation lead to some lively discussion, initiated by Kaushik Chaudhuri of IGIDR.

“The Credit-Deposit Ratio of commercial banks in Kerala”, was the focus of K.P.Mani's presentation. The author, who belonged to the Kerala

Agricultural University, surveyed the trends in the CD ratio and attempted to highlight main determinants of its low levels in Kerala. The survey-based results suggested that fewer opportunities for profitable investment, fear of accumulating NPA's, adherence to capital adequacy norms, and an increase in NRE deposits have resulted in a declining CD ratio.

Another study, based on a field survey of Kalahandi district in Orissa, was presented by Gagan Bihari Sahu of Institute of Economic Change, Bangalore. The author, in his paper entitled, "Credit Flow to Agriculture: An Analysis of Bank Branches in Kalahandi District", found that although priority sector lending was on the rise, it was primarily on account of the rise in advances to non-agricultural activity. This was coupled with inter-regional disparities in credit flow to agriculture. The discussant felt that it was difficult to draw such broad conclusions, as there were very few data points.

One of the events scheduled for the first day was a **pre-dinner talk on "How Different is Monetary Policy Making in an Opening Developing Economy" by Narendra Jadhav, Head, Dept. of Economic Analysis and Policy, RBI.** Unfortunately, he was tied up with some prior official engagements and could not make it for the talk. The task was deputed to Mridul Sagar of the same department, who ably delivered the talk on Narendra Jadhav's behalf.

In describing the various bottlenecks that central banks face in the conduct of monetary policy in an opening developing economy, Narendra Jadhav's paper drew an analogy to 'cloning' and emphasized the fact that mere replication of monetary policy elsewhere is not the solution. The author delved deep into the intricacies of policy-making and showed why these economies have to be more innovative. There was an in-depth analysis of the multiple indicator approach as an alternative to the choice of specific nominal anchors, the lack of clear understanding of the transmission mechanism, the problems associated with 'rules' of monetary policy, effects of asset-price volatility, and the need to strengthen monetary policy institutions coupled with better Fiscal-Monetary policy coordination.

Second Day: 31st. January, 2003.

The second day of the conference addressed a variety of topics like financial reforms, FII investment and corporate finance. The first paper in the series was by Arusha Cooray of Macquarie University, Sydney, who focused on the financial reforms and its successes in the Sri Lankan economy since 1977 in her paper, “Financial Reform : Evidence from Sri Lanka”. Trends in a number of financial sector variables were presented. She concluded that the economy had grown greatly in width, depth and resilience, but still had a long way to go as far as reforms are concerned. The discussant, Pradeep Agarwal of IEG opined that the study revealed very little and that a more rigorous analysis was required.

The effect of Foreign Institutional Investor (FII) investment inflows into the Indian economy was the subject of study entitled, “FII Investments in Indian Economy – An Econometric Analysis”, done by S.S.S.Kumar of National Institute of Bank Management. The pair-wise relationship between FII investments and call money rates, real effective interest rates and wholesale price index were analyzed using cointegration analysis. The major finding of the study was that the RBI sterilizes the FII investment inflows. The author deemed it a costly policy option and suggested that the RBI must reduce sterilization and use it more sparingly.

Focus moved to corporate finance with a presentation on the pre and post liberalization “Inter-industry Differences in Capital Structure among Indian Firms”, by Sumitra Das and Malabika Roy of Jadavpur University. Their major finding was that the external fund requirement based on technology used accounts for most of the variation in capital structure, although size and industry classification do matter. The result was interpreted as a sign of the linkage between capital and product markets.

Monetary policy and finance was the subject for one of the parallel sessions on the second day. C.J. Unny of Christ College, Thrissur, presented the results of his investigation of the high savings rates in Kerala in a paper entitled, “Determinants of Savings of Rural Households in Kerala. Based on the analysis of survey data from three villages in Kerala, he found that income level and inequalities, value of assets and education yielded positive effects on savings ratio, while dependency ratio and number of male children exerted a negative influence.

The paper entitled, “Financial Liberalization in India and the Bank Lending Channel of Monetary Transmission”, by Abhaysingh Chavan and Rajendra Vaidya of IGIDR spelt out the importance of the bank-lending channel of monetary transmission in the wake of the financial reforms. To the extent that banks resort to unsecured lending alternate sources of funds like the non-reservable and non-insured funds with banks had considerably reduced the pressure that central banks can exert on bank-lending.

The stock market channel of monetary transmission was the topic for the paper entitled, “Monetary Policy and Predictability of Stock Returns: Evidence from an Emerging Economy”, by Rudra Sensarma of the RBI/IGIDR. The study made jointly with Padmini Dasgupta of IGIDR, revealed that monetary policy in India was a significant predictor of stock returns. on the basis of analysis conducted using time-series techniques. It was suggested that the Indian stock market is not efficient in the semi-strong sense of Efficient Market Hypothesis.

The other parallel session was on Market Information and Efficiency. Kavim Bhatnagar of National Institute of Management, Ahmedabad, in his paper asked the question, “Do Indian Pensioners hold Diversified Portfolio?”, in the pre and post liberalization periods and found that although pensioners in India were largely under-diversified, those who retired in the 1990’s diversified risk more. This was attributed to the changes in capital market structure. The implications of these characteristics for asset-pricing were also studied.

Characteristics of the Hot and Cold Periods in the Indian IPO market, was the focus of the paper by Saurabh Ghosh of the RBI / IGIDR. The main finding was that Indian corporates depend more on long-lasting market sentiments in their decision on when to go public rather than the information content in initial returns. He noted that most of those who tapped the primary market in the 1990's were from the booming computer related sectors.

The paper entitled, "Variance Ratio Tests and High Frequency Data: A Study of Liquidity and Mean Reversion in the Indian Equity Market", by Tirthankar Patnaik and Susan Thomas of IGIDR tested the behaviour of serial correlation in high frequency firm stock prices in the variance ratio framework. The major findings of the paper is that there is no significant evidence of serial correlation in the index returns and also that there is a strong correlation between mean reversion in returns of stocks and their liquidity.

Third Day: 1st. of February, 2003.

The first session on the third day focused on several theoretical papers that were concerned with market design and government policy. Tridib Sharma of ITAM / IGIDR, presented "The Effect of Enforcement on Firm Finance", (jointly with Stefan Krasa and Anne P. Vilamil), in which the focus is on how legal environments with differing enforcement affect firm structure across countries. The main proposition of the paper is that firms default due to inability to pay and unwillingness to pay are equilibrium phenomenon that arise endogenously and co-exist. The discussant, Bibhas Saha of IGIDR, commended the authors' efforts and congratulated them on account of their unearthing a new form of credit-rationing and drew out a few implications of the model.

Gangadhar Darbha of National Stock Exchange, presented a paper entitled, "Estimating the Benchmark Yield Curve", in which a new framework was provided to estimate bench-mark default and liquidity risk free yield curve using the stochastic frontier approach. Security specific factors were controlled for in estimating the yield curve as is required for estimating the Zero Coupon Yield Curve from bond prices. The discussant, Praveen Mohanty of ICICI Bank, deemed it an interesting paper and questioned the sensitivity of the results to the stochastic frontier.

Bappaditya Mukhopadhyay of Management Development Institute, Gurgaon, presented in his paper, “Policy Implications for Ratings Industry”, a simple model for a rating agency. It is theoretically shown that in equilibrium, only a portion of projects get funded based on their ratings, and firms with high default probabilities would not approach rating agencies. The possibility of the regulator increasing net surplus was also investigated.

‘Emerging Banking Issues’ at the Conference.

As part of the decision to focus on institutions, the conference set apart a significant amount of time for discussing issues related to Indian banking. The papers presented on the second day of the conference concentrated on deregulation, ownership, performance and corporate governance in the banking sector. The day opened with a session chaired by Ajit Ranade of ABN Amro Bank. The first paper entitled, “Does NPA Matter: Evidences from Indian Public Sector Banks”, by Paramita Mukherjee of Indian Credit Rating Agency(ICRA), commented on whether or not, the emphasis on NPA’s in Indian public sector banks is justified. It was suggested on the basis of a model of a representative bank, that banks in distress should break the vicious circle created by the possible endogeneity among its own performance variables and that their financial health is better explained by variables like profitability and solvency. The discussant for the paper, Veena Mishra of IGIDR commended her on recognizing that NPA is not the single-most indicator on the bank performance. She was of the opinion that further research must try and dynamize the model that was based purely on accounting variables at one point of time.

The next paper entitled, “Assets and Liabilities Information Analysis of the Indian Public Sector Banks”, by Debasis Bagchi of Bengal Engineering College, Howrah, focused on the use of information measures in explaining banks’ policy decisions concerning asset and liability reorganizations and concluded that Indian public sector banks have primarily used asset reorganization in order to meet capital adequacy ratios, although the steps taken were not part of any deliberate scheme. Information measures did not seem to follow any discernable pattern. The presentation was followed by a lively discussion initiated by Rajendra Vaidya of IGIDR. The participants recognized the fact it was one of the first applications of entropy measures in analyzing bank behavior.

Public sector banks and the debate on privatization was the subject of the next presentation by T.T. Ram Mohan of IIM, Ahmedabad who used a variety of efficiency and productivity measures to compare across banks in a paper titled, “Productivity and Efficiency of Public and Private Sector Banks in India”. Deregulation was expected to expose inefficiency of public sector banks and widen the gap between them and the private and foreign banks. The author concluded that it had not happened. On the basis of his analysis he even concluded that there is no clear indication of the superiority of the latter in terms of efficiency and productivity. He hypothesized that public sector banks who already had an advantage in terms of scale of operations, have now increased their focus on profitability.

The third session on the second day stayed on with banking, but addressed issues of corporate governance. The first paper entitled, “Implications of Weak Governance Case of CRB Group”, presented by Harini Mittal and co-authored by Bharat Dalal of the Nirma School of Management, set the pitch for the session by highlighting the need for strong corporate governance. The fraudulent ways of one of the NBFC’s, CRB Capital was presented as a case study to highlight the loopholes in corporate governance mechanisms and recommend changes in the present regulatory framework. The discussant Jayati Sarkar of IGIDR commended the effort, but also added that more rigourous analysis must be made, along with focusing also on internal governance of such NBFC's, rather than putting a disproportionate burden on the regulator.

Public and private bank comparisons were revisited in the paper titled, "Governance and Performance in the Public Sector Banks during Liberalization", presented by Errol D'Souza of IIM, Ahmedabad. The study compared efficiency and profitability across banks and related them to a host of banking ratios. The phenomenon of increased relative profitability of the PSB's in comparison to the private and foreign banks in late nineties was attributed to higher expenses that the latter were incurring on better risk management practices, technological upgradation, etc.. Staffing patterns, multi-tasking, incentive structures, improving turnover per employee and the like are the focus of these banks. He effectively demonstrated that if PSB's lose sight of these issues, they stand to lose out in the race.

Banking ownership and performance was also the focus of Bikram De's (of ICICI Bank / IGIDR) empirical analysis of Indian banks. A striking finding of this paper entitled," Ownership Effects on Bank Performance: A Panel Study of Indian Banks", was that with regard to Return on Assets, there were no significant ownership effects across different bank groups. However, the public sector banks were found to be wanting in terms of operating cost efficiency.

Third day had a **Round Table Conference on "Conceptual and Policy Issues in Banking"**, which was chaired by B.B. Bhattacharya, Director, IEG. **Nachiket Mor, Executive Director, ICICI Bank,** presented a paper on the **'Problems and Prospects for the Indian Banking Sector'**. Being a practicing banker, Nachiket Mor spoke at length about the rules and experience that guide management and organizational behavior. He touched upon the consistency of shareholder expectations, existing regulatory mechanisms, organizational competency, benchmark for bank performance, etc. He questioned the traditional performance benchmarks set for banks and suggested alternatives like EVE and EVER that would help gauge the true performance over time. He called for an optimal mix between market and regulation and questioned the arbitrary nature of a few regulations. The discussant for the paper, Subhashis Gangopadhyay of IDF distinguished between Macro and Micro regulation and pointed at the subtle difference between interference and regulation. He opined that the RBI had assumed too many roles and that they should shed some of them. He concurred with Nachiket Mor on the point that a balance must be struck.

The talk by Nachiket Mor was followed by a **Panel Discussion on "Banking Sector Reforms: Institutions and Incentives".** It brought together a distinguished group of economists, regulators and bankers, in order to address the issue from different perspectives. The panel consisted **of Mr. P.S. Shenoy, Mr. C.R. Muralidharan, D.M. Nachane, Urjit Patel and Shubhashis Gangopadhyay.**

Mr. P.S. Shenoy, MD of Bank of Baroda, gave an overview of the financial sector reforms of the past decade and said that the public sector banks had taken up the challenge by increasing profitability, strengthening corporate governance and introducing competitiveness in their operations.

Mr. C.R. Muralidharan of the RBI supported Mr. Shenoy's claims with some hard facts. He said that the financial system was indeed opaque and highly regulated but that the slow and steady reforms had succeeded. He said that 22 of the 27 PSB's have adhered to the capital adequacy requirements (compared to just 2 initially), NPA's have dwindled from 25%, a little over a decade ago to 7% now, people were moving away from a cash economy to a banking economy and so on. He claimed that the regulation by the RBI had softened, greater private sector participation was being encouraged, and the sequencing of reforms in India was appropriate.

D. M. Nachane, of Mumbai University, spoke about the problems associated with the implementation of Basel accord in India. He mentioned that the recommendations favoured the OECD countries, the standard capital adequacy ratio sometimes worked in an adverse manner, as it encourages risk-taking and enhances pro-cyclicality. He pointed out limitations of the VAR models being pushed on banks in the context of Basel II.

Urjit Patel of IDFC, Mumbai was critical of the public sector banks and the regulatory framework within which the private banks have to operate. He bemoaned the absence of proper bankruptcy procedures, the use of interest rates as a quasi-fiscal instrument, the sustained bail-out of public sector banks that blunt incentive mechanisms and so on. He saw government ownership as the source of the problem, and stated that greater commercial discipline must be brought about in banking operations.

Subhashis Gangopadhyay, of IDF, called for greater adoption of the principles of corporate governance in the functioning of public sector banks, and emphasized that aggressive funding of firms was the prime requirement in a developing country. He highlighted the fact that bank NPAs are more important than firm NPAs. He said that banks must be pulled up for indiscipline but given an opportunity to rectify. He echoed Urjit Patel's concerns about the absence of strong and effective bankruptcy procedures.

The panel discussion turned out to be informative and lively. While the bankers and regulators emphasized the real achievements of PSBs, the economists were more concerned about remaining deficiencies and of how they could be removed. B. B. Bhattacharya, of IEG, moderated the debate in an apt manner, and drew out responses from members of various financial institutions who were present in the audience. He saw a common ground on which the opposing viewpoints could be reconciled and summarized the issues that were thrown up for the other participants.

One of the highlights of the conference was a presentation **by Gerard Caprio** of the World Bank on **'Finance for Growth: Policy Choices in a Volatile World'**. Suman Bery of NCAER, was the discussant for the presentation.

Gerard Caprio attempted to define the role of governments in finance and emphasized the role of finance for growth and poverty reduction. He said that government must build better legal and information foundations in order that contracts are respected and enforced, a theme crucial to the success of market forces. He pointed out that access to both equity and debt finance is limited because of legal weaknesses. He provided empirical evidence to substantiate his claims about the importance of protection of minority shareholders, bank supervision, usefulness of deposit insurance, adverse consequences of bureaucrats as bankers, opening of foreign financial services, advantages of banking sector privatization and so on. He emphasized, however, that all this did not mean that he was in favour of leaving finance to the market, privatizing all the banks at once or opening up to capital flows without robust regulatory systems. The presentation was followed by some insightful comments by Suman Bery, who tried to analyze how best Gerard Caprio's prescription could be implemented in India. He acknowledged the importance of finance to growth in India and said that his recommendations on deposit insurance, improvement of the regulatory framework, etc. were very much applicable in India. He emphasized, however, the importance of sequencing these reforms appropriately. The discussants comments were followed by a number of questions by the participants, who fished out various examples to either counter Gerard Caprio's claims or to further reinforce them. The session on the whole was very informative.

The Valedictory Session

The conference came to an end with the **valedictory address by Mihir Rakshit, Director, Monetary Research Project, ICRA Limited** who spoke **"Finance in the Indian Macroeconomy"**. D.M. Nachane, Mumbai University, assumed the chair for this session. The address was particularly interesting because Mihir Rakshit gave the participants, deep and meaningful insights, merely by interpreting trends in certain financial sector variables. He pointed to some disquieting features in the process of liberalization like low credit-deposit ratios inspite of the SLR being slashed drastically. He bemoaned the trend of financial dis-intermediation in India and made comparisons to China, which inspite of having high NPA's, had mustered high savings, made investments abroad and maintained a low current account deficit, i.e., in spite of micro-inefficiency, China was able to achieve high growth rates. He extended the argument about financial dis-intermediation to an analysis of 'companies' sources of funds' and noted that firms were increasingly resorting to funding from internal sources and depreciation. However, he noted that there were reasons for being upbeat too. Though India has integrated with the world financial markets, we managed to weather the South-East-Asian crisis. D. M. Nachane spoke of his long association with Mihir Rakshit and was full of praise for the veteran, as he had very effectively put across his ideas in relatively simple terms.

The conference came to a close with a *Vote of Thanks*, delivered by Jayati Sarkar of IGIDR. It was noted that the conference had grown over the years and attracted greater interest and participation. It was also deemed a success in terms of the number of papers received and quality of papers selected for presentation.

Written by Arun Sudheer with inputs from the coordination committee.