

High Banking Transaction Costs are a 'Deadweight Loss': RBI Governor

Dr. Bimal Jalan, Governor, Reserve Bank of India addressed the participants of a Symposium on Transformation of Indian Banking and Financial System in 50 Years of India's Independence. The two-day Symposium was organised by the Bankers Training College of the Reserve Bank of India in Mumbai on March 20-21 to celebrate the 50th year of India's Independence. The Symposium was attended by senior officers from banks, financial institutions and the Reserve Bank of India.

Addressing the participants, the Governor said that the achievements of the banking sector during the past 50 years are a matter of pride. No other country has achieved the depth and the spread that the Indian banking has over the past 50 years. Banks have also played a useful role in channelising and mobilising resources for the development of the Indian economy. More importantly, in terms of manpower and skills, India had a comparative advantage over its competitors, he pointed out.

Outlining the challenges before the banking system as it entered the new millennium, the Governor stated that it was important to make available banking services to consumers at a reasonable cost. He pointed out that the transaction costs for banking services in India are very high and even have a bearing on the formulation of the monetary policy in that they reduce the maneuverability of the policy makers so far as interest rates are concerned. Explaining this he stated that transaction costs added to the real rate of interest give a very high nominal rate of interest and added that high rates of interests are not conducive for economic development. Further, since much of the transaction cost is a 'deadweight loss', that is, it is not a transfer payment, high transaction cost benefits no one; whereas lower transaction costs give much leeway to monetary authorities, he argued. High rate of interest not only has an impact on customer service but also leads to the incidence of non performing assets. The Governor implored for an efficient and contemporary payment and settlement system for the Indian banking and financial system and said that such a system would also help the banks in giving better and speedier customer service.

The Governor also stressed on development of financial markets, especially the debt markets and the money markets. Mentioning that a lot has been done to develop these markets in the past, he added that they need to be further developed in terms of enhancing liquidity and ease of transactions in the debt markets. He argued that a well-developed debt market is crucial at this juncture of Indian economy. The financing needs of sectors which need development today, such as, infrastructure, are different, he pointed out. He called upon the banks and financial institutions to contribute towards developing these areas in the coming years.

(Alpana Killawala)
General Manager

Press Release : 1997-98/872