

ECONOMIC GROWTH, FINANCIAL DEEPENING AND FINANCIAL INCLUSION

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I. Introduction

I would like to thank the Indian Banks Association and the Andhra Bank for inviting me to this Conference, which has become an annual feature of the calendar for bankers and financial sector professionals.

In view of the theme of the conference, *viz.*, "Inclusive Growth – A New Challenge", I thought it would be appropriate to place financial inclusion within the broad context of economic growth. There is yet another motivation for choosing the theme. What is the big change that has taken place in India since 2004? The Indian growth story has been steadily coming of age and the performance of the Indian economy has attracted worldwide attention. The Indian growth story is now mentioned in the same breath as that of China. The economy has been averaging a growth rate of more than 8.0 per cent during the last three years. The recently released numbers from CSO have placed the first quarter growth (April to June, 2006) at 8.9 per cent, more than the overall growth rate of 8.0 per cent reiterated recently by the Reserve Bank in its Mid-Term Review.

On an earlier occasion in this forum, in its earlier avatar as BECON in December 2002, I had noted the slow growth of credit and taken to task that audience of bankers as 'lazy bankers' (Mohan, 2002). Fortunately, you seem to have taken this observation seriously and non-food credit growth from 2002-03 to 2005-06 averaged 28.8 per cent. This growth shows little sign of abating in the current year when it has recorded a growth of over 30.0 percent. The growth in broad money since 2002-03 has averaged 16.2 per cent, which during the present year has been of the order of 19.0 per cent. These trends signal further that India is on a high economic growth path accompanied by financial deepening.

A new concern has emerged in the process: that of financial inclusion. Moreover, the Government of India has also expressed its explicit concern on the issue of overall inclusion in the development process through its various initiatives such as the Rural Employment Guarantee Scheme, the *Bharat Nirman* programme, the *Sarva Shiksha Abhiyan*, and the like. A committee on financial inclusion (Chairman: Dr. C. Rangarajan) has also been constituted by the Government of India in June 2006 to recommend a strategy to achieve higher financial inclusion in the country.

Likewise, enabling access to a greater number of the population to the structured and organised financial system has explicitly been on the agenda of the Reserve Bank since 2004. Unlike several central banks, which focus solely on inflation, many developed and emerging economies, including ours, focus also on growth. There is currently a clear perception that there are a vast number of people, potential entrepreneurs, small enterprises and others, who are excluded from the financial sector, which leads to their marginalisation and denial of opportunity for them to grow and prosper. The Reserve Bank has therefore introduced various new measures to encourage the expansion of financial coverage in the country. Not only is financial inclusion essential because of its implications for the welfare of citizens but it needs to be stressed that it has to be an explicit strategy for fostering faster economic growth in a

(* Address by Dr. Rakesh Mohan at the Annual Bankers' Conference 2006, at Hyderabad on Nov 3, 2006. This draws heavily on my earlier lecture on a similar subject at the FICCI-IBA Conference in Mumbai on Sep 26, 2006) The assistance of Charan Singh, A. P. Gaur, Supriyo Majumdar, Saibal Ghosh and Partha Ray in preparing the paper is gratefully acknowledged.

more inclusive fashion. It is in this context that I thought it would be appropriate to place the strategy of financial inclusion in the wider context of economic growth and financial deepening.

My ideas on this topic are organised along the following lines. To begin with, I shall dwell upon the process of growth and financial deepening in India. This will be followed by definitional aspects and some evidence from the experience of other countries, with regard to financial inclusion. Thereafter, the focus would be on interlinking the relevance of financial inclusion in our economy, which has entered a high growth orbit, with the rural economy. The penultimate section focuses on the role being played by the Reserve Bank in this regard. My concluding thoughts would be in the nature of issues that have a bearing on financial inclusion.

II. Economic Growth

The growth trend of the Indian economy over the last few years appears to indicate the beginning of a new phase of higher growth. From an average growth rate of around 6.0 per cent for a quarter of a century, the growth rate has accelerated to 8.1 per cent over the last few years. Along with declining population growth, this suggests high growth in per capita income in excess of 6 per cent in recent years, and perhaps approaching 7 per cent, which would lead to doubling of per capita income every ten years. Most importantly, the current growth process is not a flash in the pan and is exhibiting signs of sustainability along with financial stability, notwithstanding the pressures from unforeseen external shocks.

On the savings front, the increasing trend in gross domestic saving as a proportion of GDP witnessed since the early 2000s has also continued unabated. The gross domestic savings rate has improved from 23.6 per cent of GDP in 2001-02 to 29.1 per cent in 2004-05, led by a turnaround of 4.2 per cent in public saving, from a dis-saving of 2.2 per cent of GDP in 2001-02 to a saving of 2.0 per cent in 2004-05, mainly reflecting the fiscal consolidation process. Household savings continue to grow and increased corporate savings reflect their healthy growth in profitability. The encouraging sign of a pick up in investment has also strengthened unhindered. Along with the improvements in savings and investment rates, there has also been a marked lowering of inflation from 7.8 per cent in the 1990s to 4.7 per cent in recent years. With such healthy increases in savings and investment rates financial intermediation is assuming increasing importance (Annex Table 1).

Alongside these improvements there has also been a resurgence of manufacturing activity. There had been noted stagnation in manufacturing during 1997-2003. Overall industrial recovery set in during 2002-03 and this has been sustained since then on the back of healthy growth in domestic demand, along with that of exports supported by high world economic growth, increasing capacity utilisation, augmentation of capacity, and positive business and consumer confidence. But there is little evidence of significant growth in manufacturing employment leading to emerging doubts in the inclusive nature of this growth.

The current high industrial growth is reflected in the acceleration in growth of bank credit in recent years. Average growth in non-food credit between 1970 and 2000 had been 16.9 per cent, which had been seen as evidence of finance led industrialisation by some (Bell, 2001). In the period of industrial slowdown, 1998 to 2002, annual growth in non-food credit had also slowed to 14.5 per cent - leading to my comment on "lazy banking". In recent years, during 2002-03 to 2005-06, this growth has accelerated significantly to 28.8 per cent, possibly signalling financial deepening of the system.

Much of this recent expansion in non-food credit has been fuelled by an increase in retail credit. During the same period, 2002-03 to 2005-06 annual growth in retail credit was 46 per cent: its share in overall bank credit consequently increased from 6.4 per cent in 1990-

91 to 25.5 per cent in 2005-2006. Earlier, most of bank credit had gone to the industrial corporate sector. Hence this shift to retail credit can also be seen as a move toward financial deepening, and one that itself fuels industrial and overall economic growth through expansion of greater demand for consumer goods.

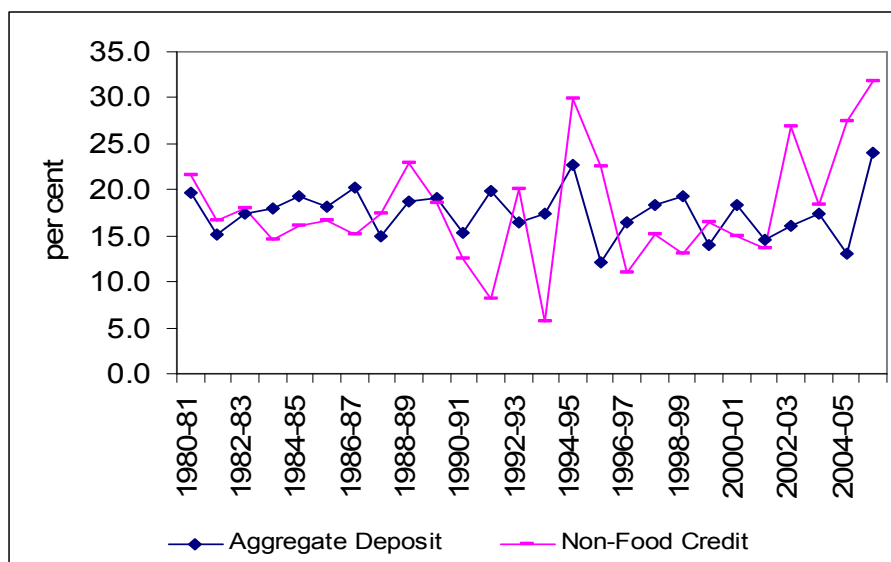
The high industrial growth is also corroborated by the record of very healthy performance of the corporate sector, which has recorded unusually high profit growth over the past three years: over 40 per cent growth in profit after tax for 11 successive quarters from Q₃ 2002-03 to Q₁ 2005-06. Although this growth has slowed somewhat in the last four quarters, it continues to be high, between 25 and 35 per cent. Corporate sector savings have grown from 4.4 per cent of GDP in 1999-2002 to 5.3 per cent in 2004-05. Hence, the probability of continued high corporate growth in terms of output is made more likely by the availability of high retained earnings, burgeoning valuations, and continued productivity growth.

All these developments point to overall financial deepening but, once again, one has to ask the question whether such performance extends to small and medium enterprises also and, whether there has also been extension of financial intermediation for such enterprises, raising issues of financial inclusion.

The high industrial and credit growth of recent years has also been supported by high trade growth in both merchandise goods and services. Merchandise exports have grown from 5.8 per cent of GDP in 1990-91 to about 13.1 per cent in 2005-06; and gross invisible receipts have grown from 2.4 per cent to 11.5 per cent of GDP. If we take gross trade, the sum of both current account receipts and payments, as a proportion of GDP as an index of the openness of the economy, this has increased from 19.2 per cent in 1990-91 to 49.5 per cent in 2005-06. Since all such receipts and payments pass through the banking system, this increasing openness of the economy has also added to financial deepening, while aiding the acceleration in economic growth (Annex Table 2).

The high credit growth witnessed in recent years has, however, not been matched by adequate deposit growth. The growth in deposits since 2001-02 has been far lower than that required to support overall credit expansion (Graph 1). Banks have been financing much of the incremental credit expansion by unwinding their surplus investments in government securities. What deposit growth that has been observed is, moreover, concentrated in the larger cities: presumably it has been helped by the high corporate profitability leading to high corporate cash balances. The trend therefore indicates that while banks may have been proactive in credit deployment, their focus on deposit mobilisation may have been less than adequate. The indication that deposit growth in non metro areas has been slow could also mean that financial inclusion may have suffered. We also need to understand that if deposit growth does not match credit growth, excess demand would inevitably lead to increases in real interest rates leading to further possibility of financial exclusion.

Graph 1: Growth in Aggregate Deposits and Credit



Overall, it is clear from the recent performance of the economy and that of the financial sector that a good deal of financial sector growth has accompanied the recent acceleration of economic growth. We also observe that a good part of credit growth has gone towards financing consumption and housing which suggests widening of the financial system. But deposit growth has been slow, particularly outside metro areas, leading to questions concerning financial deepening and inclusion.

III. Financial Deepening

There is a general consensus among economists that financial development spurs economic growth. Theoretically, financial development creates enabling conditions for growth through either a supply-leading (financial development spurs growth) or a demand-following (growth generates demand for financial products) channel. A large body of empirical research supports the view that development of the financial system contributes to economic growth (Rajan and Zingales, 2003). Empirical evidence consistently emphasises the nexus between finance and growth, though the issue of direction of causality is more difficult to determine. At the cross-country level, evidence indicates that various measures of financial development (including assets of the financial intermediaries, liquid liabilities of financial institutions, domestic credit to private sector, stock and bond market capitalisation) are robustly and positively related to economic growth (King and Levine, 1993; Levine and Zervos, 1998). Other studies establish a positive relationship between financial development and growth at the industry level (Rajan and Zingales, 1998). Even the recent endogenous growth literature, building on 'learning by doing' processes, assigns a special role to finance (Aghion and Hewitt, 1998 and 2005).

A developed financial system broadens access to funds; conversely, in an underdeveloped financial system, access to funds is limited and people are constrained by the availability of their own funds and have to resort to high cost informal sources such as money lenders. Lower the availability of funds and higher their cost, fewer would be the economic activities that can be financed and hence lower the resulting economic growth.

Some of the recent concerns on financial inclusion have emanated from the results of the All-India Debt and Investment Survey (AIDIS), 2002. Over a period of 40 years, the share of non-institutional sources of credit in sources of credit for cultivator households had declined sharply from about 93 per cent in 1951 to about 30 per cent in 1991, with the share of money lenders having declined from 69.7 per cent to 17.5 per cent. In 2002, the AIDIS revealed, however, that the share of money lenders had again increased to 27 per cent, while that of non-institutional sources overall rose to 39 per cent (Table 1). In other words, notwithstanding the outreach of banking, the formal credit system has not been able to adequately penetrate the informal financial markets; rather it seems to have shrunk in some respects in recent years.

Coincidentally, it is also true that the rate of agricultural growth during the last decade has slowed down and it is particularly striking in respect of foodgrains production. Since the green revolution, banks have been mainly focused on financing crop loans connected largely with food grains. There is, therefore, reason to believe that financial exclusion may actually have increased in the rural areas over the last 10-15 years.

Table 1: Relative Share of Borrowing of Cultivator Households#

Sources of Credit	(per cent)					
	1951	1961	1971	1981	1991	2002\$
1	2	3	4	5	6	7
Non-institutional	92.7	81.3	68.3	36.8	30.6	38.9
<i>of which:</i>						
Money lenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
<i>of which:</i>						
Co-operative societies, etc.	3.3	2.6	22.0	29.8	30.0	30.2
Commercial banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	-	-	-	-	3.1	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

: Borrowing refers to outstanding cash dues.

\$: AIDIS, NSSO, 59th Round, 2003.

Source: All India Debt and Investment Surveys.

One of the key features of financial deepening is that it accelerates economic growth through the expansion of access to those who do not have adequate finance themselves. Typically, in an underdeveloped financial system, it is the incumbents who have better access to financial services through relationship banking. Moreover, incumbents also finance their growth through internal resource generation. Thus, in an underdeveloped financial system, growth is constrained to the expansion potential of incumbents. In mature financial systems on the other hand, financial institutions develop appraisal techniques, and information gathering and sharing mechanisms, which then enable banks to even finance those activities or firms that are at the margin, thereby leading to their growth-inducing productive activities in addition to the incumbents. It is this availability of external finance to budding entrepreneurs and small firms that enables new entry, while also providing competition to incumbents and consequently encouraging entrepreneurship and productivity.

What has been the case in India? As I mentioned earlier, the incredible corporate profit growth, in excess of 40 per cent for almost three years consecutively, would suggest that there should have been massive new entry to whittle down profitability to more moderate levels. This, however, does not seem to be the case on the ground yet with corporate profitability still growing at an annual rate of around 35 per cent during April-June 2006.

That entry of new firms has possibly been limited is also indicated by the fact that among the different categories of credit growth, lending to SMEs has been the lowest, though there are some signs of higher growth in recent months.

There are, however, other signs of financial deepening (Mohan, 2004). According to one indicator of financial deepening, the ratio of bank assets to GDP, financial depth in India was among the lowest in the world (Barth, Caprio and Levine, 2001). Comparable cross-country data indicated that in 2001, this ratio, at 48 per cent for India, was lower than those prevalent in Asian economies such as Indonesia (101 per cent), Korea (98 per cent), Philippines (91 per cent), Malaysia (166 per cent) and much lower than developed economies, such as UK (311 per cent), France (147 per cent) and Germany (313 per cent). In India, while the ratio of bank assets to GDP has increased significantly to a shade over 80 per cent in 2005-06 – obviously a consequence of the high credit growth in recent years - it is still lower than other emerging countries. In absolute terms, the annual expansion in non-food credit has increased from Rs.64,302 crore in 2001-02 to Rs.3,54,193 crore in 2005-06, while retail credit has increased from around Rs.16,000 crore to Rs.1,09,129 crore. So, it needs to be recognised that financial deepening has been taking place on an accelerated pace on a macro basis in recent years, that banking productivity has improved significantly, and that bankers have clearly been very busy.

Whereas banks have clearly taken to heart my remarks on “lazy banking” on the asset creation side, they have not matched this creditable performance on the liability side. Dare I repeat the same expression!

An important question that arises logically is: has commensurate financial deepening been taking place at the micro-level? There is sufficient anecdotal evidence to suggest that the poor or less well-off people find it difficult to open a bank account in any area – rural, urban or semi-urban. Thus, not only is the common individual deprived of access to banks for generating savings or availing credit, but so is the financial system of resources commensurate with the burgeoning growth of incomes all over the country. It is this very feature that the process of financial inclusion seeks to address. This is an aspect to which I turn next.

IV. Financial Inclusion

I begin by looking at exactly the opposite of financial inclusion, *i.e.*, financial exclusion. Broadly defined, financial exclusion signifies the lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream providers. Financial exclusion is thus a key policy concern, because the options for operating a household budget, or a micro/small enterprise, without mainstream financial services can often be expensive. This process becomes self-reinforcing and can often be an important factor in social exclusion, especially for communities with limited access to financial products, particularly in rural areas.

Two major factors have often been cited as the consequences of financial exclusion. First, it complicates day-to-day cash flow management - being financially excluded means households, and micro and small enterprises deal entirely in cash and are susceptible to irregular cash flows. Second, lack of financial planning and security in the absence of access to bank accounts and other saving opportunities for people in the unorganised sector limit their options for providing for themselves for their old age. From the macroeconomic standpoint, being without formal savings can be problematic in two respects. First, people who save by informal means rarely benefit from the interest rate and tax advantages that people using formal methods of savings enjoy. Second, informal saving channels are much less secure than formal saving facilities. Those who can afford it least suffer the highest risk. The resultant lack of savings and saving avenues means recourse to non-formal lenders, like

money lenders. This, in turn, could lead to two adverse consequences – a) exposure to higher interest rates charged by formal lenders; and b) the inability of customers to service the loans or to repay them. As loans from non-formal lenders are often secured against the borrower's property, this raises the problem of inter-linkage between two apparently separate markets. Judged in this specific context, financial exclusion is a serious concern among low-income households, mainly located in rural areas.

Once access to financial institutions improves, inclusion affords several benefits to the consumer, regulator and the economy alike. Establishment of an account relationship can pave the way for the customer to avail the benefits of a variety of financial products, which are not only standardised, but are also provided by institutions that are regulated and supervised by credible regulators, and are hence safer. The bank accounts can also be used for multiple purposes, such as, making small value remittances at low cost and making purchases on credit. Furthermore, the regulator benefits, as the audit trail is available and transactions are conducted transparently in a medium that can be monitored. The economy benefits, as greater financial resources become transparently available for efficient intermediation and allocation, for uses that have the highest returns. In other words, the single gateway of a banking account can be used for several purposes and represents a beneficial situation for all the economic units in the country.

In addition, I would like to flag an important perspective. Improvements in rural infrastructure in terms of availability of electricity, improvement in connectivity through provision of rural roads and telecommunications, and construction of warehouses, are expected to lead to better overall supply chain management, enhance productivity of physical resources in the rural areas and greater addition in agriculture. These developments would lead to much greater demand for banking activity in rural areas. The two-fold implications of these developments for the banking sector are apparent. First, with higher financing needs of such new activities *vis-a-vis* traditional ones, the overall financing intensity of agriculture is likely to experience a manifold rise. Second, along with growth in rural infrastructure, there is also likely to be an increase in rural non-farm activities, such as repair activities, education, housing, restaurants and medical services. These activities, both traditional and emerging ventures, would be available for financing by the banking sector.

Thus, as the economy begins to grow rapidly, the rate of financial intermediation is expected to increase further. In other words, the banking system will be expected to increasingly provide larger quantum of funds to existing and emerging enterprises. And without adequate deposit growth, however, credit expansion might not be sustainable over the medium-term, without putting immense pressure on real interest rates and impacting the overall stability of the financial system.

International Experience

Typically, countries with low levels of income inequality tend to have lower levels of financial exclusion, while high levels of exclusion are associated with the least equal ones. In Sweden, for example, lower than two per cent of adults did not have an account in 2000 and in Germany, the figure was around three per cent (Kempson, 2006). In comparison, less than four per cent of adults in Canada and five per cent in Belgium, lacked a bank account (Buckland et al, 2005). Countries with high levels of inequality record higher levels of banking exclusion. To illustrate, in Portugal, about 17 per cent of the adult population had no account of any kind in 2000 (Kempson, 2006).

The policy responses to such exclusion have been varied (Box 1). In Sweden, for example, banks cannot refuse to open a saving or deposit account under Section 2 of the Banking Business Act of 1987; in France, Article 58 of the Banking Act, 1984 recognised the principle of the right to a bank account; in the US, federal government introduced the

Community Reinvestment Act in 1997, partly in response to concerns about bank branch closures in low-income neighbourhoods. Under this legislation, federal bank regulatory agencies rate banks on their efforts to serve low-income communities. These early legislations were designed to ensure access to a deposit account but did not spell out the nature of banking services that should be on offer. Refinements in this area have actually taken place in the latter half of the 1990s, resulting partly from a wider concern regarding social exclusion (Caskey et al, 2006, Kempson et al, 2000). It may, thus, be noted that financial inclusion is a concern even in developed countries and legislative or regulatory measure to achieve it are a common feature.

Box 1: Policy Response to Financial Exclusion – Country Experiences

Two major kinds of policy responses have been implemented by central banks in response to financial exclusion: codes of practice and specific legislation. First, countries such as France and Belgium have undertaken initiatives to committing banks to open an affordable account with bare minimum facilities. Termed 'call deposit account' in Belgium, it offers three basic types of transactions: money transfers, deposits and withdrawals, and bank statements. However, individual banks may opt to offer other services if they wish. In Germany, a voluntary code was introduced by the German Bankers Association in 1996. This makes provision for an 'everyman' current account, offering basic banking transactions, without an overdraft facility. Likewise, access to basic banking in the United Kingdom and Australia has been achieved through voluntary arrangements with banks and has not involved formal charters. In the United Kingdom, for instance, a Banking Code has been drafted, which requires banks to inform customers about their basic bank account and its suitability for their needs. A Financial Inclusion Taskforce, instituted in April 2005, monitors access to basic banking services.

Several countries have also introduced specific legislation that gives both, a universal right to a bank account and, spells out the precise nature of banking services to be provided. In France, the law on exclusion of July 1998 reiterated the right to an account first set out in the 1984 law and has since then simplified the process of exercising the right to an account. In Belgium, a banking bill was enacted which has been implemented since October 2003. In addition to setting out the minimum standards for basic bank accounts, it also specifies the ceiling on charges and a minimum number of free face-to-face transactions. In many ways, the policy response in Canada combines the best of developments in other countries. The relevant legislation, enacted in June 2001, requires all banks to provide accounts without minimum opening balances to all Canadians, regardless of employment or credit history, with minimum identification requirements. A Financial Consumer Agency of Canada has been established to monitor whether financial institutions adhere to their public commitments.

Sources:

Kempson, E. (2006). Policy Level Response to Financial Exclusion in Developed Economies: Lessons for Developing Countries, paper presented at the conference, Access to Finance: Building Inclusive Financial Systems, World Bank, Washington, D.C.

Connolly, C., and K.Hajaj (2001). Financial Services and Social Exclusion, Financial Services Consumer Policy Center, University of New South Wales.

HM Treasury (1999). Access to Financial services. London: HM Treasury.

Present Situation in India

I would like to share with you certain data that highlight my concern on financial exclusion. The share of deposits and credit in rural and semi-urban areas is on the decline. In contrast, the share in metropolitan areas is rising. The share of credit is lower than that of

deposits in all regions except metropolitan, implying that resources get intermediated into metropolitan areas (Table 2). This in itself may not necessarily be undesirable or unexpected if resources are being intermediated to their best uses. However, they do provide some indication for concern and for the need for more investigation.

Table 2: Spatial Distribution of Banking Services

1	(Per cent)								
	Offices			Deposits			Credit		
	1969	1996	2005	1969	1996	2005	1969	1996	2005
2	3	4	5	6	7	8	9	10	
Rural	22.2	51.2	45.7	6.4	14.4	12.2	3.3	11.4	9.5
Semi-urban	40.4	21.3	22.3	21.8	19.5	16.9	13.1	13.1	11.3
Urban	19.2	15.2	17.6	26.5	22.4	21.5	21.8	17.7	16.4
Metropolitan	18.2	12.3	14.4	45.3	43.7	49.4	61.8	57.8	62.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Reserve Bank of India

The total number of saving accounts, considered to be a better indicator of banking penetration than other deposit accounts, as per cent of number of households, was 137 in rural areas and 244 in the urban areas on the eve of reforms in 1991. By 2005, despite the reforms, the differential continues to be similar. In the case of credit accounts, the situation has deteriorated for rural households while showing significant improvement in the urban areas (Table 3), corroborating the very significant increase in retail credit.

Table 3: Number of Deposit and Credit Accounts in Scheduled Commercial Banks

1	2	(Per cent of Number of Households)					
		1981	1991	1996	2001	2004	2005
3	4	5	6	7	8		
Deposit Accounts							
Current Accounts	Rural	3.6	5.5	4.7	4.9	4.4	4.6
	Urban	15.0	23.4	24.1	19.2	17.5	18.3
Savings Accounts	Rural	59.6	137.0	129.8	123.3	126.8	131.5
	Urban	135.5	243.7	249.7	197.4	206.5	213.1
Current and Saving Accounts	Rural	63.2	142.6	134.5	128.2	131.1	136.1
	Urban	150.5	267.2	273.7	216.6	224.0	231.4
Term Deposits Accounts	Rural	22.9	41.8	45.5	52.0	48.3	45.7
	Urban	74.6	96.9	105.0	105.6	113.4	104.0
Total Deposits Accounts	Rural	86.1	184.4	180.0	180.1	179.4	181.8
	Urban	225.1	364.1	378.7	322.2	337.4	335.4
Credit Accounts	Rural	18.0	44.3	36.0	26.5	28.7	32.2
	Urban	15.1	29.9	27.1	28.4	42.5	50.2

Notes:

1. The census population groups are 'rural' and 'urban', whereas the population groups used in BSR data are 'rural', 'semi-urban', 'urban' and 'metropolitan'. There is no unique relationship between the two. For comparison purpose and simplicity, 'Rural' and 'Semi-Urban' are taken as 'rural', and 'urban' and 'metropolitan' are combined as 'urban'.
2. For three new formed States, number of households, in 1991 have been estimated based on 2001 data. Population is as per 1981, 1991 and 2001 census. For 1996, 2004 and 2005 projected population has been used, and rural and urban proportion of past census is applied.

Sources: 1. Reserve Bank of India. 2. Census, 2001.

Total deposits, as per cent of GDP, increased from 32.2 in 1991 to 47.1 in 2005 in rural areas and from 37.3 to 61.2 in urban areas. Similarly, credit extended, as per cent of GDP, increased from 17.3 to 22.3 in rural and from 24.8 to 45.0 in urban areas (Table 4). In terms of banking penetration, the number of deposit and credit accounts of scheduled commercial banks as per cent of adult population are significantly lower in the rural areas as compared with the urban areas (Table 5).

Table 4: Deposits and Credit Amounts in Scheduled Commercial Banks

(per cent of GDP)						
		1981	1991	1996	2001	2005
1	2	3	4	5	6	7
Deposit Accounts						
1. Current Accounts	Rural	2.6	2.7	2.4	2.9	3.3
	Urban	5.5	7.1	7.0	7.0	8.7
2. Savings Accounts	Rural	9.8	11.2	10.5	13.6	18.6
	Urban	7.2	9.0	7.9	9.8	13.3
3. Current and Saving Accounts (1 + 2)	Rural	12.4	13.9	12.8	16.4	21.9
	Urban	12.7	16.1	14.9	16.8	22.0
4. Term Deposits Accounts	Rural	13.8	18.3	20.5	27.9	25.2
	Urban	16.6	21.2	22.4	29.2	39.1
5. Total Deposits Accounts (3 + 4)	Rural	26.3	32.2	33.3	44.4	47.1
	Urban	29.3	37.3	37.3	46.0	61.2
6. Credit Accounts	Rural	13.0	17.3	14.4	15.8	22.3
	Urban	20.0	24.8	25.5	31.1	45.0

Notes:

1. GDP at Market Prices (current prices) is used. The rural and urban figures of GDP are based on ratio of monthly per capita Total Consumer Expenditure, NSSO.
2. Same as in Table 3.

Source: Same as in Table 3.

Table 5: Number of Deposit and Credit Accounts in Scheduled Commercial Banks

(per cent of Adult Population, Age 15+)						
		1981	1991	1996	2001	2005
1	2	3	4	5	6	7
Deposit Accounts						
Current Accounts	Rural	1.0	1.6	1.4	1.4	1.4
	Urban	4.5	6.6	6.8	5.4	5.2
Savings Accounts	Rural	16.1	39.6	37.6	36.5	39.0
	Urban	40.3	69.2	70.9	55.8	60.2
Current and Saving Accounts	Rural	17.1	41.3	38.9	38.0	40.3
	Urban	44.8	75.8	77.7	61.2	65.4
Term Deposits Accounts	Rural	6.2	12.1	13.2	15.4	13.6
	Urban	22.2	27.5	29.8	29.8	29.4
Total Deposits Accounts	Rural	23.3	53.4	52.1	53.4	53.9
	Urban	67.0	103.4	107.5	91.0	94.7
Credit Accounts	Rural	4.9	7.7	8.0	7.9	9.5
	Urban	4.5	12.8	10.4	8.0	14.2

Note: Same as in Table 3.

Source: Same as in Table 3.

Even in terms of financial widening, the scope for improvement remains. In terms of regional dis-aggregation since 1991, population per bank office has increased in rural areas from 13,462 in 1991 to 16,650 in 2005 and, as expected, declined in the urban areas from 14,484 to 13,619 over the period. Three regions, North-Eastern, East and Central have higher population per office than the all-India average and it has increased significantly in the rural areas in 2005 over 1991 (Table 6). Consequently, compared to an all-India average of 29.9 savings accounts per 100 persons in 1991, virtually all of the states in the Eastern and North-Eastern regions and several pockets in the Central region had figures lower than this average. In the rural areas, Northern and Southern region are above the all-India average while in the urban areas, Northern and Western region dominate. In terms of number of credit accounts per 100 persons, the Southern States, both in rural and urban areas perform above the all-India average.

Table 6: Regional Level Indicators of Scheduled Commercial Banks

1	1991	2005	1991	2005	1991	2005
	Total		Rural		Urban	
	2	3	4	5	6	7
Population per Office						
Northern	11,002	12,257	10,771	13,043	11,571	10,941
North-East	16,870	26,227	16,335	22,158	21,169	20,318
Eastern	16,441	19,913	16,402	21,208	16,614	15,759
Central	15,786	19,518	15,153	20,264	18,745	17,297
Western	12,771	14,618	12,579	15,526	13,108	13,472
Southern	11,932	12,328	11,276	12,372	13,811	12,243
All-India	13,711	15,680	13,462	16,650	14,484	13,619
Deposits: Number of Savings Accounts per 100 persons						
Northern	40.0	38.3	30.1	29.7	62.6	55.4
North-East	17.8	17.6	16.1	16.4	28.4	24.2
Eastern	21.8	20.5	17.7	16.9	40.0	36.1
Central	23.8	24.5	21.0	22.1	34.7	32.9
Western	35.5	32.5	24.7	23.8	53.8	45.2
Southern	37.0	37.6	34.6	35.5	42.7	41.8
All-India	29.9	29.2	24.5	24.4	45.6	41.6
Credit: Number of Credit Accounts per 100 persons						
Northern	6.4	5.7	6.6	5.1	5.9	6.7
North-East	4.4	3.3	4.4	3.2	4.4	3.9
Eastern	6.6	4.2	7.2	4.2	4.3	4.3
Central	5.5	4.3	5.8	4.2	4.4	4.5
Western	5.7	7.5	6.2	4.2	4.8	12.2
Southern	11.8	14.2	13.6	12.7	7.6	17.4
All-India	7.3	7.0	7.9	6.0	5.5	9.8

Notes: Same as in Tables 3 and 4.

Source: Same as in Table 3.

Thus, the apparent implication emerging from the above data reveals that the rural areas are not being served adequately by banks. This suggests that banks need to make efforts to mobilise resources from the rural sector, where as discussed earlier, scope for increase in business is emerging. Further, if the banks are to balance their overall deposit mobilisation

and credit extension, as generally robust banking practice would imply, then they would need to devise imaginative ways to mop up the resources, particularly in rural areas.

V. Rural Economy- Growth, Production Patterns and Credit Extension

It is instructive to examine the rural economy in a bit more detail. Although the share of agriculture in overall GDP has declined from around 35.8 per cent in 1980-81 to less than 19.9 per cent at present, the fall in the proportion of population dependent on the sector has been limited (Table 7). In other words, a majority of the workforce is still dependent on agriculture, while the GDP growth due to agriculture is marginally above the rate of growth of the population, in contrast to a strong growth rate in the non-agriculture sector.

Table 7: Components of Gross Domestic Products*

Year/Sector	(Per cent)				
	Agriculture and Allied	<i>Of which:</i> Agriculture	Industry	Services	Total
1	2	3	4	5	6
1970-71 to 1979-80	42.8	37.7	16.9	40.3	100.0
1980-81 to 1989-90	36.4	33.1	19.5	44.0	100.0
1990-91 to 1999-2000	29.1	26.7	21.9	49.0	100.0
2000-01 to 2005-06	21.9	20.8	21.4	56.7	100.0

*: Annual averages.

Source: National Account Statistics.

The slowdown in agriculture in recent years is characterised by the stagnation in domestic production in case of commodities like wheat, sugar and pulses. There has been a marked deceleration in the share of cereals in total production (agriculture and allied) from 31.7 per cent in 1960-61 to 24.1 per cent in 2004-05 (Table 8). On the other hand, the share of other segments such as livestock and fishing, and non-cereals are recording a significant increase. There has been a silent revolution over the last 20 years, unnoticed by researchers and policy makers alike. The value of output of non cereal vegetarian food and of non-vegetarian food (livestock and fishing) is each higher than that of cereals. In principle, these activities should be more credit intensive. It is, therefore, of utmost importance that our image of what is agriculture, changes from that of simple rice and wheat to a more complex structure, so that policy makers can assign due importance to the sector and respond accordingly (Mohan, 2006).

Table 8: Changing Pattern of Agricultural Production

Year	Cereals and pulses	Non-cereals food	Cash crops	Livestock and fishing	Forestry and logging	Ag. and allied (Rs. crore)
Sectoral shares: as per cent of agriculture and allied						
1	2	3	4	5	6	7
1960-61	31.7	33.6	4.9	20.3	9.5	1,32,292
1970-71	31.4	34.9	4.8	20.1	8.8	1,69,066
1980-81	30.3	36.2	4.4	23.4	5.7	2,26,719
1990-91	28.6	36.4	4.5	26.2	4.3	3,10,165
2000-01	25.4	37.6	3.9	28.0	3.9	5,68,990
2004-05	24.1	n.a	n.a	29.2	3.8	6,22,183

Source: National Accounts Statistics.

Apart from non-cereal food production, service and manufacturing activities have also been growing faster in rural areas. There are new supply chain activities: sorting, grading, storage, cold storage, transportation, food processing, and the like. All are in the cash economy and potentially in need of credit. In fact, it is estimated that agriculture now accounts for less than half of rural GDP: an epochal change that took place some time in the late 1990s. So “rural” can no longer be equated with agriculture. The consequence is that rural per capita income has probably been growing at a rate similar to that of urban per capital income.

There is also good evidence (NCAER) of the dramatic changes in consumption and income growth and distribution patterns in the rural economy. As classified consistently by NCAER, keeping real income cut offs constant, the proportion of households classified as “low income” in rural areas has fallen from about two thirds in the early 1990s to only about a quarter now. At the same time, those classified as middle income households have risen from a third to almost 70 per cent now (NCAER, 2003). Hence, there should have been a surge in financial savings in rural areas: but we do not see evidence of this in the number or proportion of households that have bank accounts.

The banking system needs to adjust to the realities in the rural sector. There is evidence they are finding it difficult. As the ratio of agricultural GDP to total GDP declines, agricultural credit to total GDP would also decline. However, this is not observed from the data (Table 9). In recent years a concern over the falling share of agricultural credit as a proportion of total credit has been expressed. The data reveal that agriculture credit as a ratio of total credit has also been rising in the recent years but is still below the level of 1970s.

Table 9: Ratio of Direct Agricultural Credit to Agricultural GDP, Total GDP and total Credit

Year	Ag. Credit/Ag. GDP	Ag. Credit/total GDP	Ag. Credit/CS
1	2	3	4
1970s	5.4	2.1	10.8
1980s	8.3	2.6	8.5
1990s	7.4	2.0	6.4
1999-2000	10.0	2.6	8.1
2000-01	11.3	2.8	7.9
2001-02	14.0	3.0	8.2
2002-03	16.6	3.1	7.7
2003-04	18.0	3.4	8.6
2004-05	25.0	4.4	9.8
2005-06	25.9	4.9	9.3

Notes:

1. Agricultural credit; direct credit for agricultural and allied activities extended by co-operatives, commercial banks and regional rural banks.
2. Total GDP and Agricultural GDP are at factor cost and at current prices.
3. CS - other banks' credit to commercial sector (outstanding) proxy for total credit.

Source: RBI and NABARD.

The existing agricultural credit system, as indicated earlier, is geared to the needs of food grain production. It is gratifying to note that agriculture credit has not fallen as a proportion of agricultural GDP despite the share of food grain production declining as a proportion of total agricultural production. In fact, according to available data, agricultural credit has been rising in recent years as a share of both the value of inputs and the value of outputs (Table 10).

Moreover, long-term credit as a share of private investment has also been rising in the 1990s (Table 11). The balance of evidence also suggests that non-performing loans (NPLs) in agriculture are not higher than in other sectors, more specifically those in small-scale industries (SSIs). To illustrate, NPLs in agriculture - both for public as well as private banks - were lower than those in the SSIs as at end-March 2005 (Mohan, 2006).

Table 10: Gross Value of Output, Value of Input and Short-Term Credit

(Rs. crore at current prices)

Year	Gross value of output	Value of input	Short-term credit	Short-term credit as percentage of	
				Value of output	Value of input
1	2	3	4	5	6
1993-94	2,71,839	55,401	5,424	2.0	9.8
1998-99	4,88,731	93,416	10,821	2.2	11.6
1999-2000	5,26,658	1,21,878	12,610	2.4	10.3
2000-01	5,29,800	1,26,773	15,442	2.9	12.2
2001-02	5,66,563	1,37,802	18,882	3.3	13.7
2002-03	5,56,121	1,51,437	23,324	4.2	15.4
2003-04	6,25,121	1,53,770	31,972	5.1	20.8
2004-05	6,48,096	1,59,658

.. : Not available.

Source: National Accounts Statistics.

Table 11: Private Capital Formation and Share of Long-Term Credit

(Rs. crore)

Decade/Year	Private Sector Capital Formation	Investment Credit	Per cent
			(Col 3 over Col 2)
1	2	3	4
1980-81 to 1989-90	7,840	2,603	33.2
1990-91 to 1999-2000	12,299	7,794	63.4
2000-01	15,374	11,707	76.2
2001-02	15,823	11,992	75.8

Source: Reserve Bank of India (2004).

In addition to the above data analysis, I must mention that non-institutional agricultural credit has declined from over 92.7 per cent in 1950s to 38.9 per cent in 2002. Thus, nationalisation of banks and their increased geographical expansion into rural areas certainly made a difference but there is scope for improvement.

The rising economic activity in rural areas driven by the growth of newer activities such as horticulture, floriculture, organic farming, genetic engineering, food processing and packaging - all of which are cash intensive - would necessitate increased banking facilities. In view of the evidence of a pick-up in consumer financing in rural areas, there is also a need to streamline the supply chain to deliver credit at the lowest cost to the ultimate user in the rural areas, to the benefit of both the bank and the borrower. And, as is the case for most developing countries, bank credit will be the key driver towards financing emerging activities.

VI. Strategy for Bank Credit

There has been a long history of concern regarding agricultural credit. The increase in share of institutional credit to agriculture has been rather slow. It has clearly been found difficult to extend institutional credit in rural areas. Some of the important reasons pertained

to risk perception, costs of its assessment and management, lack of rural infrastructure, and vast geographical spread of the rural areas with more than half a million villages, some sparsely populated.

Lending to small borrowers dispersed over vast expenses of geographical areas naturally involve high transaction costs. The strategy that evolved after considerable experimentation was to provide for directed credit to priority sectors that have primarily included agriculture and small scale industries. This was also the key reason for nationalisation of banks. That this strategy has been relatively successful is borne out by the data (Table 1), but it may have reached its limit, as also demonstrated by the deterioration in the reach of formal credit in the 1990s.

The key issue now is how to mainstream rural credit from institutional sources so as to achieve wider coverage, expand financial inclusion and promote economic growth. Increasingly, banks and other financial intermediaries have to see the extension of rural credit as a business opportunity and not as an obligation to do forced directed lending.

One strategy that is achieving great popularity and wide acceptance is that of micro finance, as best exemplified by the success of the Bangladesh Grameen Bank, which has now also achieved even greater recognition through the award of the Nobel Peace Prize to Mohammad Yunus. But most micro finance is not only for crops, but for other lending, in both rural and urban areas. The main issue is that of reducing transaction costs for both the lender and the borrower.

For banks, micro finance agencies and other financial intermediaries to look at rural lending as business opportunities, much more information generation has to be done so that they recognise and understand the many different activities that take place in the rural economy in addition to crop agriculture. Non cereal foods, non-food agriculture, service activities, construction and housing, rural retail activities, will all increasing levels of formal financing channels that are easy to access. This will need innovation in risk assessment, reduction in transaction costs, the search for new credit channels, and the use of cheaper information technology for delivery and collection systems.

The task of policy-makers in designing an appropriate package of measures becomes more challenging considering the fact that the new growth areas of agriculture are characterised by a high degree of heterogeneity, unlike in the case of traditional crops such as rice and wheat. There is a multiplicity of varieties that can be produced in each of these product groups; production is often regionally concentrated; the production and marketing conditions differ significantly; and the input requirements are equally heterogeneous. Hence, policies and programmes that are to be attuned to support higher productivity and production in these areas need to be much more regionally disaggregated and knowledge intensive. A key difference in approach would have to be the much greater involvement of region-specific market participants, and of private sector suppliers in all these activities, and credit suppliers ranging from public sector banks, co-operative banks, the new private sector banks and micro-credit suppliers, especially self-help groups.

To finance all these new activities, which will aid and accelerate economic growth tremendously, banks will clearly need to step up their efforts in generating deposits as well from the many currently underserved households and small businesses.

VII. Role of RBI

Historically, the Reserve Bank and the Government of India have been making efforts to increase banking penetration in the country. Some of these measures include the creation of State Bank of India in 1955; nationalisation of commercial banks in 1969 and 1980; initiating the Lead Bank Scheme in 1970; establishing regional rural banks (RRBs) in 1975; introducing a Self-help Group (SHG)-Bank Linkage Programme in 1992 and formulating the *Kisan* Credit Card scheme in 2001. Notwithstanding these improvements, financial inclusion found a place in policy documents only very recently. In the Annual Policy of the Reserve Bank for 2004-05, the Governor, Dr. Reddy observed and I quote -

There has been expansion, greater competition and diversification of ownership of banks leading to both enhanced efficiency and systemic resilience in the banking sector. However, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganised sector. While commercial considerations are no doubt important, the banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis.

Pursuant to this, the Reserve Bank has undertaken a number of measures with the objective of attracting the financially excluded population into the structured financial system. These measures, mainly, are in the nature of code of ethics and voluntary charters to promote greater financial access (Box 2).

Box 2: Measures undertaken by Reserve Bank towards Financial Inclusion

In November 2005, banks were advised to make available a basic banking 'no-frills' account with low or nil minimum stipulated balances as well as charges to expand the outreach of such accounts to vast sections of the population. Several banks have since introduced such 'no-frills' account with and without value-added features. According to the information available with the Reserve Bank, about five lakh no-frill accounts have been opened until March 31, 2006, of which about two-third are with the public sector and one-third with the private sector banks.

In order to ensure that persons belonging to low income group, both in urban and rural areas do not encounter difficulties in opening bank accounts owing to procedural hassles, the know your customer (KYC) procedures for opening accounts has been simplified. The Reserve Bank has directed banks to make available all printed material used by retail customers in English, Hindi and the concerned regional language. More recently, in January 2006, banks were permitted to utilise the services of non-governmental organisations (NGOs/SHGs), micro-finance institutions and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models.

To extend hassle-free credit to bank customers in rural areas, the guidelines on general credit card (GCC) schemes were simplified to enable customers' access credit on simplified terms and conditions, without insistence on security, purpose or end-use of credit. With a view of providing hassle free credit to customers, banks were allowed to issue general credit cards akin to *Kisan* credit cards. A simplified mechanism for one-time settlement of loans with principal amount up to Rs.25,000 which have become doubtful and loss assets as on September 30, 2005 was suggested for adoption. In case of loans granted under Government-sponsored schemes, banks were advised to frame separate guidelines following a state-specific approach to be evolved by the State-Level Bankers' Committee (SLBC). Banks have been specifically advised that borrowers with loans settled under the one time settlement scheme will be eligible to re-access the formal financial

system for fresh credit. Banks were advised to give effect to these measures at all branches for achieving greater financial inclusion. Initiatives have also been undertaken towards achieving greater financial inclusion in the North-Eastern region, which had perennially remained under-banked.

The Reserve Bank considers that IT-enabled services can meet the challenges which need to be addressed for increasing the scope and coverage of financial inclusion such as lack of adequate infrastructure, higher transaction costs and low volumes of transactions. The Reserve Bank has already initiated action in the North-Eastern region.

Source: Reserve Bank of India.

The Reserve Bank has also been periodically issuing guidelines on public grievance redressal mechanism in banks, including constitution of customer service centers. Based on the recommendations of a Committee on Procedures and Performance Audit of Public Services for ensuring improvements in quality of service rendered, banks were advised to constitute a Customer Service Committee of the Board. In the Reserve Bank, the Customer Service Department has recently been constituted to, *inter alia*, serve as the interface between customers and banks.

On a broader plane, the Reserve Bank has been adopting a two-pronged strategy to generate greater awareness and expand the reach of banking services – which can be termed as empowerment and protection. As regards the former, financial inclusion is the first stage of the process. This is strengthened by inculcating awareness among the masses through financial education. Concurrently, an advisory mechanism in the form of credit counseling is being encouraged to help distressed borrowers and bring them within the fold of formal finance. As regards protection, a Banking Codes and Standards Board of India has been established recently to ensure a comprehensive code of conduct for minimum standards of banking services to be offered by banks. The revised Banking Ombudsman Scheme has been put in place to redress deficiencies in customer service by banks.

VIII. Concluding Remarks

The economy is presently in a phase of rapidly rising incomes, rural and urban, arising from an expansion of extant economic activities as well as the creation of new activities. Corporate profitability has exhibited sustainable trends and consumer incomes are increasing rapidly, riding on the growth momentum. All of these developments suggest that the demand for financial services, both for savings as well as production purposes, will be greater than has been the case in the past, and there will be many new entrants in need of financial services who have not hitherto been served. At present our financial depth is much lower than that of other Asian countries, though it has picked up in the recent past. While there is evidence of an increase in financial deepening, particularly during the present decade, the increase in the breadth and coverage of formal finance has been less than adequate. Deepening the financial system and widening its reach is crucial for both accelerating growth and for equitable distribution, given the present stage of development of our country.

There has been a burst of entrepreneurship across the country, spanning rural, semi-urban and urban areas. This has to be nurtured and financed. It is only through growth of enterprises across all sizes that competition will be fostered. A small entrepreneur today will be a big entrepreneur tomorrow, and might well become a multinational enterprise eventually if given the comfort of financial support. But we also have to understand that there will be failures as well as successes. Banks will therefore have to tone up their risk assessment and risk management capacities, and provide for these failures as part of their risk management. Despite the risk, financing of first time entrepreneurs is a must for financial inclusion and growth.

The Parliament passed the Credit Information Bureau Act last year and the guidelines for its implementation will be released shortly. This should enable, over time, the availability of credit histories of both individuals and small businesses, which will help significantly in reducing transactions and information costs for banks. It will also help in spreading the credit culture among borrowers. It should help banks greatly in assessing and managing risk at low cost.

As poverty levels decline and households have greater levels of discretionary incomes, they will be first time financial savers. They will, therefore, need to have easy access to formal financial systems to get into the banking habit. Banks will need to innovate and devise newer methods of including such customers into their fold. The importance of 'no-frills' account and expanding the range of identity documents that is acceptable to open an account without sacrificing objectivity of the process in this milieu can never be over-emphasised. Banks will need to go to their customers, rather than the other way around.

The micro-credit and the Self Help Group movements are in their infancy but are gathering force. More innovation in the form of business facilitators and correspondents will be needed for banks to increase their outreach for banks to ensure financial inclusion. New entrants to the banking system need households at their doorstep.

To conclude, I wish to stress that with increasing liberalisation and higher economic growth, the role of banking sector is poised to increase in the financing pattern of economic activities within the country. To meet the growing credit demand, the banks need to mobilise resources from a wider deposit base and extend credit to activities hitherto not financed by banks. The trend of increasing commercialisation of agriculture and rural activities should generate greener pastures, and banks should examine the benefits of increasing penetration therein. Financial inclusion will strengthen financial deepening and provide resources to the banks to expand credit delivery. Thus, financial inclusion will lead to financial development in our country which will help to accelerate economic growth.

Thank you.

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Annex Table 1: Select Macro Economic Indicators - Annual Average Growth Rate

	(per cent)		
	1970-71 to 1990-91	1991-92 to 2000-01	2001-02 to 2005-06
1	2	3	4
1. Per capita income*	2.0	3.5	5.3
2. Population	2.2	2.0	1.7
3. GDP (constant prices)	4.4	5.7	6.7
Agriculture	2.9	2.6	2.5
Industry	5.9	5.9	6.2
<i>of which:</i>			
Manufacturing	5.7	6.1	6.8
Services	5.3	7.4	8.6
4. Gross Domestic Savings (as per cent of GDP)	18.7	23.2	27
Household	13.7	18.7	22.7
Corporate	1.7	3.9	4.2
Public	3.3	0.7	0.1
5. Gross Domestic Investment (as per cent of GDP)	19.8	24.3	26.4
6. Inflation (WPI)	8.7	7.8	4.7

*: NNP (factor cost)

Source: National Accounts Statistics, CSO.

Annex Table 2: Index of Openness of the Indian Economy

	(per cent of GDP)		
	1991-96	1996-2001	2001-06
1	2	3	4
1. Merchandise Exports	8.0	8.8	11.3
2. Merchandise Imports	10.1	12.4	14.9
3. Gross Invisible Receipts*	4.1	6.1	9.2
4. Gross Invisible Payments	3.1	3.8	5.1
5. Index of opening (1+2+3+4)	25.3	31.1	40.5

* Less official transfers.

Source: Reserve Bank of India.