



Rethinking Liberalisation of Banking Services under the India-EU Free Trade Agreement

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The European Union (EU) and India are negotiating a free trade agreement (FTA) which encompasses liberalisation and deregulation of financial services. This paper wants to raise policy issues that run much deeper than the current liberalisation debate and consider who will benefit and who will lose from the FTA. This paper first looks at the performance of EU banks in India, especially as compared to the developmental needs of the un-banked and under-banked regions and groups of people in India. This first part of the paper is based on research by K. Singh, *India-EU free trade agreement - Should India open up banking sector?* (Madhyam, 2009).¹ Since the financial and economic crisis has highlighted the fact that liberalised and deregulated financial services have damaging effects on a country, this also papers analyses how free trade agreements potentially reinforce rather than mitigate those trends.

Financial services liberalisation through FTAs

Both the EU and India have already opened up their banking and other financial services markets (such as insurance) through a series of domestic policy initiatives, coupled with binding bilateral and multilateral trade and investments agreements.

The EU's initiative to sign an FTA with India is part of its trade strategy, called 'Global Europe – competing in the world', which sets several long-term economic and strategic goals. An important strategic goal is to open up services markets in lucrative 'emerging market economies' such as India, especially because liberalisation negotiations at the World Trade Organisation (WTO) have been stalled. Since 2006, the EU has been negotiating many FTAs such as with South Korea and the South East Asian countries of ASEAN. The financial services sector has in the past years been a major focus of the EU because of the high profitability of the sector. The EU has not yet indicated any change of focus regardless of the crisis.

India has also initiated negotiations for bilateral agreements with Thailand, Japan, South Korea, Chile, MERCOSUR, the Gulf Cooperation Council (GCC) and ASEAN. India has already signed an FTA with other regional member countries also belonging to SAARC (SAFTA) and with Singapore.

India and the EU launched negotiations to create a free trade agreement in June 2007. While negotiations were expected to be completed within two years, now, at the end of summer 2009, it looks unlikely that they will be finished before 2010.

The lure of Indian banking markets

The EU wants to increase access to India's financial services market and has been consistently demanding removal of restrictions on the admission of foreign banks in India, particularly those related to licensing of bank branches. The motives behind entering banking markets in India are obvious. The Indian financial services market is considered very lucrative with a tremendous scope for growth, even after the financial crisis, given the relative low numbers of credit cardholders, housing mortgages, and deposit of household savings (just 18% of the GDP). Also wealth management and advisory services are seen as a growing market given that India has been creating millionaires at the fastest pace in the world. According to Barclays Wealth Insights report (2008), India will have 411,000 millionaires with an aggregate wealth of \$1.7 trillion by 2017.²

Similarly, large mergers and acquisitions and shares issuing in corporate India have required investment banking, an area in which European banks such as Deutsche Bank have a competitive edge over Indian banks. The UK is foremost in demanding the liberalisation of banking services market in India since that would boost the UK banks' net service exports that have been rising up to around a record £14 billion in 2007 (up from £12.1 billion in 2006)³.

Earnings from securities transactions, derivatives and foreign exchange transactions account for the majority of UK banks' net exports.

The large-scale problems in the banking and financial sectors of many European countries caused by the financial crisis are not likely to deter their banks from entering Indian markets and asking for more openness, for various reasons. First, the Indian economy is not suffering a severe financial crisis – due to lack of financial liberalisation – nor a recession like the one many western countries are facing. India's economy is expected to grow in the coming years, albeit at a diminished rate. Second, the need for financial intermediation is on the rise since many businesses in India are still growing. Third, profits in the financial sector in India are likely to be much higher than those in mature European markets. Fourth, India has been planning since 2005 to remove restrictions on banking sector. Notwithstanding the financial crisis, many European banks (including Deutsche Bank and Barclays) have applied for licences to operate in India. The overall strategy of the European banks would be to move out of the recessionary conditions by making investments in those countries which are least or not affected by recession.

Indian bankers eye EU markets

The India-EU negotiations on the banking services, however, cannot be simply construed as a one-way process. A number of big Indian banks, both state-owned and private, are also seeking the removal of EU market restrictions to increase their presence in EU countries (particularly in the UK). They aim to serve Indians based in these countries and to assist big Indian corporations acquiring European companies. It has been estimated that nearly 30 million people of Indian origin live abroad. Their remittances are the highest in the world at US\$ 24 billion annually, and Indian banks want to increase their market share by expanding their presence abroad and handle more of these remittances. At present, 16 Indian banks (11 state-owned and 5 private) operate a network of 192 offices abroad.

So far the EU has not previously faced many requests by its trading FTA partners to liberalise the EU financial services market. India, however, has indicated that it would be willing to reciprocate with more market access to the EU financial industry in exchange for increased EU market liberalisation for Indian banks.

The political economy of banking sector liberalisation

In 1991, India launched a policy of liberalisation and globalisation which changed its policy of economic self-development behind closed borders. This brought about important developments in the financial sector, ranging from a liberalised regime for the entry of foreign banks to divestiture in state-owned banks, interest rate deregulation, the dismantling of developmental financial institutions, and the mushrooming of micro-credit programmes and non-banking financial institutions. Indian authorities have unilaterally opened up the banking markets to foreign banks. The number of branches permitted each year to foreign banks has been higher than the WTO commitments of offering 12 new licences every year to all foreign banks (new and existing). For instance, during July 2006-June 2007, India allowed seven already established foreign banks (including ABN AMRO Bank, Barclays Bank and Deutsche Bank) to open 20 new branches and additionally seven foreign banks were permitted to set up representative offices.

In 2008, 30 foreign banks from 21 countries were operating in India with a network of 277 bank branches and 765 off-site ATMs (cash points). The 9 EU-based banks operating in India are Royal Bank of Scotland (that acquired in 2007 ABN-AMRO Bank's operations in India), Antwerp Diamond Bank, Barclays Bank, BNP Paribas, Calyon Bank, Deutsche Bank, HSBC, Société Générale and Standard Chartered.

By asset size, out of the top 10 foreign banks in India, 6 are EU-based. The 9 EU-based banks together controlled 65% of total assets of foreign banks in India in 2008.

Foreign banks are also expanding business through many off-site ATMs, non-banking finance companies and off-balance sheet exposures (e.g. derivatives).

Foreign banks that have established themselves in India have been generating handsome returns in comparison with domestic counterparts and international benchmarks. For instance, during 2005-06, the net profit per branch for foreign banks was Rs.120 million⁴ as against Rs.3.3 million for an average state-owned bank in India. The net profits of foreign banks increased by 49% in 2007 as compared with 27% of the entire banking sector in India.

Foreign banks are allowed more profitable strategies

The high profits of the foreign banks cannot be explained by higher efficiency alone – even if that is the usual argument in favour of financial liberalisation. In the case of India, the central bank of India made a rigorous analysis of efficiency

of different bank groups (see table 1 and 2) and concluded that ownership had no definite relationship with efficiency.

Policies in favour of foreign banks and their profit-making strategies seem to have had more bearing on their higher profits than efficiency levels. In the case of branch licensing policy, foreign banks are not required to open bank offices in the rural areas while domestic banks (both state and private) are. Foreign and private banks have been reluctant to open bank branches in un-banked and under-banked regions that are less profitable than those in the urban and metropolitan areas. Most bank branches of foreign banks have located in metropolitan areas, in order to meet their own profitability criteria and compete with rival banks. Out of the 272 bank branches of the 29 foreign banks in 2007, 83.5% were located in metropolitan areas, 15.8% in urban areas and 0.7% in semi-urban areas. The top EU banks have totally neglected rural and social banking in India (see table 3).

According to statistics of the Reserve Bank of India (RBI), a mere 264 bank branches, out of a total 6804 branches (1.5%), were opened in unbanked areas during 2002-2007. Consequently, 391 districts out of a total 602 districts in India have been 'under-banked', i.e. with a population per branch that is higher than the national average of 16,000.

Since liberalisation policies started in 1991, rural bank branches have been closing down while there has been a rapid growth of the bank branches in the urban and metropolitan areas. The number of bank branches in the rural areas declined continuously in the period from 1997 down to 42.7% of total bank branches in 2006-07. In contrast, Delhi, for instance, witnessed a jump of more than 30% in bank branches, from 1,256 branches in 1997 to 1,639 in 2004. Especially the poorer states such as Uttar Pradesh and Bihar as well as the entire North-eastern region have witnessed a major decline in the number of bank branches.

Table 1. Bank group-wise efficiency levels

Bank Group	Efficiency Levels	2006-07
State Bank Group	Cost	0.85
	Technical	0.95
	Allocative	0.89
Nationalised Banks	Cost	0.80
	Technical	0.93
	Allocative	0.86
Old Private Banks	Cost	0.59
	Technical	0.72
	Allocative	0.81
New Private Banks	Cost	0.83
	Technical	0.95
	Allocative	0.88
Foreign Banks	Cost	0.66
	Technical	0.79
	Allocative	0.83

Source: Reserve Bank of India, 2008 (quoted in K. Singh, o.c., p. 38)

Table 2. Some efficiency parameters (2006-07, in per cent)

Bank Group	Operating Cost to Total Assets	Net Interest Margin	Intermediation Costs	Return on Equity
State Bank Group	1.98	2.79	2.97	15.30
Nationalised Banks	1.67	2.58	3.32	14.65
Old Private Banks	1.88	2.74	3.63	10.32
New Private Banks	2.11	2.36	3.61	13.57
Foreign Banks	2.78	3.74	5.51	13.86

Source: Reserve Bank of India, 2008 (quoted in K. Singh, India-EU free trade agreement -Should India open up banking sector?, 2009, p. 36)

Table 3. Branches of EU-based banks in India (in per cent)

Name of Bank	Rural	Semi- Urban	Urban	Metropolitan	Total
ABN-AMRO Bank	0	0	9	19	28
Antwerp Diamond Bank	0	0	0	1	1
Barclays Bank	0	1	2	2	5
BNP Paribas	0	0	0	9	9
Calyon Bank	0	0	0	6	6
Deutsche Bank	0	0	4	6	47
HSBC	0	0	9	38	10
Societe Generale	0	0	0	2	2
Standard Chartered	0	0	12	78	90

As at end-March 2008
Source: Reserve Bank of India, 2008 (quoted in K. Singh, o.c., table 9)

Dramatic decline in rural and agriculture credit

Not only do foreign banks not have branches in the rural areas, they are also not obliged to fulfil the agricultural loan commitments under the priority sector lending policy. This reinforces the trend of declining share of rural bank branches that leads to a fall in deposits, credit and credit-deposit ratios in the rural areas. This is in sharp contrast to the 1970s and 1980s when a significant shift in bank lending took place in favour of the agricultural sector. For instance, from a mere 1.3% in 1969, the share of direct lending to agricultural and allied activities reached around 16% in the 1970s and 14% in the 1980s. Since the mid-1990s, the share has ranged between 11-12% of the total bank lending. As on March 2006, the share stood at 11.9%. Despite the decline in the share of agriculture in the GDP from 36% in the 1980s to 18% in 2006-07, about two-thirds of the country's 1.3 billion people are still dependent on agriculture for their livelihood.

Recent studies by National Bank for Agriculture and Rural Development (NABARD) and others have pointed out that an overwhelming majority of farmers – 72% – have no access to the banking system. In the poorer and backward regions such as North East and East India, 95% and 81% of rural households respectively are excluded from banking services.

Moreover, the small and marginal farmers (who constitute the bulk of farming community) are discriminated against as banks favour lending to big farmers who can offer collateral. The increasing number of farmers' suicides in the countryside is a reflection of the neglect of rural and social banking in India or the higher cost of rural financial services. One of the important factors behind the increasing number of farmers' suicides in the Indian countryside is lack of access to cheap credit from banks and institutional sources.

A recent study into the causes of farmers' suicide in the state of Andhra Pradesh found 76% to 82% of the victim households had borrowed from non-institutional sources and the interest rates charged on such debts ranged from 24% to 36%.

In contrast, car loans come cheaper than agricultural loans in India. In addition, there are large disparities between men and women in terms of access to banking services. In particular, lack of credit to women in general, and poor women in particular, is prevalent despite their greater contribution in terms of individual saving deposits.

The bias towards urban areas is expected to grow as Indian credit markets are driven by consumer loans and just 20 cities contribute over three quarters of new wealth creation.

Decline in lending to small businesses

Since 1991, lending to small and medium-sized enterprises (SMEs) has declined from 15% in 1991 to 11% in 2003. As on March 2007, small-sized enterprises (SSEs) received a mere 3.5% of the total bank credit. A closer examination of statistics reveals that state-owned banks lend more money to the SMEs than other banks and financial institutions.

The growing neglect of bank lending to SMEs can have adverse implications on economic growth and employment. There are 13 million SMEs in the country that together account for 80% of all companies in India, 40% of India's total production, 34% of exports and are the second largest employer after agriculture.

Decline in services to poor clients

Since the early 1990s, the share of small borrowers in the total number of bank accounts as well as bank credit has been steadily declining despite upward revisions in the credit limit over the years while the number of bank accounts with higher credit limits has increased.

The share of small borrowers in gross bank credit was 25.4% in 1989 but fell to 16.4% in 2006. ARBI Survey underlines that the present-day banking system discriminates against all types of small borrowers who seek credit for productive and consumption purposes. The Survey further found that even among small borrowers, banks tend to favour relatively better-off sections of society. The majority of accounts of small borrowers are managed by state-owned banks of India which accounted for 36.9% of the total bank accounts and 43.9% of the total bank credit to small borrowers as on March 2007.

Bias to rich clients

One should note that foreign banks are also exempted from the Differential Rate of Interest (DRI) scheme under which loans are offered to people below the poverty line (particularly to scheduled caste and tribal people) at a much lower rate of interest with easy repayment rates and no margins.

Foreign banks, as well as big domestic private banks competing with them, have especially targeted wealthy and affluent customers. Retail and consumer loans to such customers form the fastest growing financial services market in India.⁵ Foreign banks tend to 'exclusive banking' by offering services to a small number of clients, instead of 'inclusive banking'.⁶ They charge higher fees from customers for providing banking services and maintaining a bank account with foreign banks requires substantial financial resources.⁷

In the wake of the global financial crisis, bank lending by foreign banks in particular has come down. The credit by foreign banks in India (on year-to-year growth as on 23 July 2009) declined by 7.1%, while for private banks the credit went up 4.2%, and for state-owned banks it increased 21.9% during the same period. The deposits were up 16.4% for foreign banks, 26.4% for state-owned banks, and 6.7% for private banks and during the same period. In other words, foreign banks have substantially cut back lending in India following the financial crisis while they are still experiencing positive growth in deposits there.

Rise in lending to sensitive sectors

Foreign and domestic private banks have contributed to tremendous growth of bank lending, particularly lending to risky and speculative businesses such as stock market, commercial real estate, derivatives trading, and others. In real estate lending, which constituted 91.9% of the total lending to the entire so-called 'sensitive sector' (which also includes loans given to capital market and commodities sectors), new private banks and foreign banks were the leading players during 2006-07 with respectively 32.3% and 26.3% of the total loans. Foreign banks had the highest exposure to capital markets, followed by new private banks, old private banks and state-owned banks.

The bias towards rich clients and more sensitive sectors can also be observed as follows: as per on-balance sheet businesses, domestic banks (both state and private) own as much as 92% of the total banking assets in India while the foreign banks own the remaining 7% as on March 2007. However, foreign banks are by far the biggest players in off-balance sheet businesses⁸, with a combined market share of 67.9% in 2007. Off-balance sheet businesses include foreign exchange transactions, derivatives instruments and endorsements, which are operated with little regulation. They are especially offered to rich clients and provide new sources of income to the banks. As a result, the total share of foreign banks as a percentage of the assets of India's banking system (both on- and off-balance-sheet items) was 49% in 2007, far above the commitments given at the WTO. As on March 2007, the off-balance sheet exposure of foreign banks was at 1,816% of their total assets, followed by new private sector banks (215%), old private sector banks (44%) and state-owned banks (43%). The current financial crisis in the US and several European countries has clearly demonstrated that ultimately risks taken by both on- and off-balance sheet activities should be paid for by the banks, and that too large amounts and instruments on the nontransparent off-balance sheet are creating and aggravating serious financial stability risks.

FTA negotiations go beyond unilateral liberalisation

By beginning September 2009, little public information was available about the ongoing FTA negotiations on financial services between India and the EU. Based on the above analysis and other free trade agreements in which the EU is involved, the following important issues need to be discussed.

□ More liberalisation commitments

The EU's interest in increasing access to the Indian market in financial services is also clear from liberalisation

requests made by the EU to India during the WTO negotiations under the General Agreement on Trade in Services (GATS). As a result, India might be pushed during EU-India FTA negotiations to commit itself to more liberalisation than is currently the case and for instance bring its existing unilateral market opening regime under the FTA. According to FTA rules in services laid down in the GATS agreement (Art. V), India is allowed to liberalise fewer services, including financial services, than the EU. However, the EU's recent negotiation record with other developing countries has shown that the EU wants services sector liberalisation to go up to 80% and that financial services is a priority target sector. If India would like to exclude both essential services and financial services because of the unknown risks of liberalisation and privatisation, it would not be able to offer 80% liberalisation. So the FTA negotiations outcome might include more financial services liberalisation than India has currently agreed under GATS.

□ Permanent liberalisation

Bringing liberalisation under the FTA would first of all mean that India, and the EU, could hardly reverse their liberalisation processes. When India or the EU would like to reverse liberalisation and withdraw commitments, both parties would have to agree, or India would have to compensate the EU, or vice versa, according to FTA rules.

□ Rules that liberalise and deregulate

In addition to making commitments on more market opening for EU financial services, the EU wants to include in the FTA specific rules by which the liberalised (financial) services have to abide, as was done in other recent FTAs. Most of these rules are similar to existing or future GATS rules. Depending on the negotiations, they could become more or less stringent in the FTA. In general, these rules result in restrictions on how the governments can govern and regulate financial services, in India as well as in the EU, *as explained below*.

FTAs allow more favourable treatment of foreign banks to continue

Non-discrimination is a basic principle of free trade agreements and is incorporated in the 'national treatment' rule. This means that foreign financial services and their providers may not be treated less favourably than national financial services that are committed under the FTA.

The EU's negotiation position is based on the general perception that India offers very restrictive entry of foreign banks to the Indian market and that the regulatory framework discriminates against foreign banks. A closer examina-

tion of the current banking regulatory framework reveals that it is no longer the case. Prudential norms for capital reserves adequacy apply equally to foreign and national banks, and deposit insurance cover is uniformly available to all foreign banks in India on non-discriminatory terms. India issues a single class banking licence to foreign banks which is equally allowed to Indian banks. This means that foreign banks are free to undertake any banking activity (e.g. wholesale, retail, private banking, investment banking, foreign exchange, etc.) and that contrasts with many countries including the USA, Singapore and China. This single class licence policy has turned out to be a gold mine for foreign branches in India as they are handling most financial services of their home-country client companies, a substantial portion of foreign institutional investments and foreign exchange business.

As explained above, domestic banks rightly complain that foreign banks are given undue favour by the central bank. Only domestic banks (both state and private) have to lend 18% to the agricultural sector and 10% to the weaker sections of the society in addition to meeting the requirements under the DRI scheme. In addition, foreign banks have lower priority sector lending requirements, set at 32% (of their adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher), as against 40% for Indian banks. 'Priority sector lending' aims at ensuring adequate credit flows to vital sectors of the economy and according to social and developmental priorities, such as loans to students, farmers, small businesses, food and agro-industries, often at concessional rates.

Given that rules in those FTAs that have already been agreed so far with the EU have allowed foreign financial services and their providers to be treated more favourably, this more favourable treatment of foreign banks could continue under the EU-India FTA unless the wording of the national treatment rule is changed into 'equal treatment' (in stead of 'no less favourable' treatment).

The non-discrimination principle also makes it more difficult to discriminate in favour of banks and financial operators who are more active in rural areas and in promoting environmentally friendly activities.

FTA rules ignore measures to deal with the financial crisis

□ Full foreign ownership

An FTA rule that the EU is very probably proposing to India is the requirement, similar to the one in GATS, that EU banks are allowed to acquire 100% ownership of Indian banks, unless exceptions to that rule are

made. The Government of India's roadmap of financial sector liberalisation originally planned that from April 2009 onwards India would allow foreign banks to acquire domestic banks. However, given the financial crisis, Indian authorities have put this second phase of roadmap on hold. Indeed, due to the stock market meltdown, the lower valuations of many Indian banks might have offered an attractive opportunity to European (and other) banks to acquire parts of the Indian financial sector. Already, despite the severe crisis at home, many European banks are expanding their businesses in India and asking for new licences as part of their strategy to start mergers and acquisitions once Indian authorities remove existing restrictions. During the financial crisis, it has also become clear that foreign banks in developing countries have tended to repatriate capital and not reinvesting profits in the host economy.⁹

□ Liberalisation of speculative and risky financial instruments

The EU has been interested to open India's market for speculative and risky financial products, such as trading in derivatives, as the EU has already requested India in the GATS negotiations. If India would have liberalised derivative trading in food commodities under an FTA with the EU, it would hardly have been able to prohibit this trading in order to prevent speculation that make food prices too expensive for the poor, as it has done.

□ Easy entry for new services

As in other FTA negotiations so far, the EU might ask India to introduce a rule for very easy authorisation of new financial services. However, financial innovation has now proved to be very risky, lacking supervision and difficult to regulate.

□ No guarantees and means to ensure that effective national supervision and regulation

During the FTA negotiations with Cariforum, the EU had requested the Caribbean islands to endeavour to adhere to international regulatory and supervisory standards, which the Caribbean states refused. These international financial standards have now proved to be totally inadequate to deal with financial conglomerates operating world wide and new ones are not yet in place.

□ No restrictions on the size and number of financial operators, nor on the value of their financial transactions

FTA rules based on EU proposals that follow GATS rules restrict in many ways how governments can regulate the financial sector, unless exemptions are made at the time of negotiation. For instance, 'market access' rules prohibit to limit the size of a bank and the

value of its assets which would prevent it from becoming 'too big to fail' – and from having to be bailed out with taxpayer money.

□ Liberalisation of capital movements

The FTA model employed by the EU requires countries to facilitate cross-border capital flows and only restrict capital movements in very exceptional circumstances. However, capital movement restrictions have proven to be necessary to prevent a financial crisis or to intervene during financial turmoil.

Had India already signed an FTA that included liberalisation according to the government's roadmap and on the basis of the EU's FTA rules, restrictions on foreign acquisitions of Indian banks would have been lifted in times of a financial crisis. EU based banks could then potentially have increased their operations and new risky financial products without major improvements in EU or international regulations and supervision of financial services providers, as is still the case in September 2009. Although FTAs and GATS allow prudential measures by governments to protect bank customers and prevent financial instability, these have been restricted by many conditions and banks have been allowed to become too big to fail.

Conclusion: who benefits, who loses?

The developments discussed above reflect the limitations and risks of current banking services liberalisation policies. Under the current circumstances and without major changes, a liberal entry of European banks facilitated by the proposed India-EU trade agreement is likely to further constrict the access to banking services in the country, geographically, socially and functionally. As there are always losers and gainers in free trade and investment agreements, it is very important for policy makers and all stakeholders to openly analyse and discuss the potential distribution effects of such agreements on different types of economic activities and groups of people.

In addition, the provisions in FTAs are likely to further destabilise the financial system and so make future crises more likely. In the light of the ongoing financial crisis and lack of adequate international regulation and supervision, there should be some serious rethinking about banking and other financial sector liberalisation and deregulation through FTAs, at both India and EU levels. It is also high time for the current public and political discussions about financial reforms, right up to the G-20 level, to review the impact and restrictions on financial regulations included in free trade agreements.

Endnotes

- 1 Unless otherwise specified, the analysis and figures used in this paper are based on the research by K. Singh, India-EU free trade agreement – Should India open up banking sector?, Special Report, Madhyam, 2009, <<http://www.madhyam.org.in/admin/tender/Special%20Report%20on%20India-EU%20FTA.pdf>>
- 2 Barclays Wealth Insights - Volume 5: Evolving fortunes. 6 May 2008, p. 26 - 27
- 3 United Kingdom balance of payments, The pink book 2009, Office for National Statistics, UK
- 4 1 US \$ = Indian Rupees 48 (September 2009)
- 5 Niranjana Rajadhyaksha, 'The Dark Side of Consumer Credit,' Businessworld, 2 October, 2006, p.46
- 6 EPW Research Foundation, 'Financial inclusion in a deregulated regime', Economic and Political Weekly, May 20, 2006, pp.1940-42
- 7 Laura Ceresna, an independent researcher, carried out extensive field-visits and surveys in and around Bangalore during October 2008 - January 2009 to find out the extent of banking services and financial inclusion policies adopted by different banks (public, private and foreign banks) to different class of customers.
- 8 Off-balance sheet business refers to the various fee and commission based businesses which have no direct reflection on the bank's balance sheet either on asset or liability side. Although derivative instruments are meant for hedging risks by banks, overexposure in derivatives and other off-balance sheet instruments could itself aggravate the risks posed to the balance sheet of banks. The banks and financial institutions run off-balance sheet businesses through the creation of special-purpose investment vehicles with flexible accounting. Since such vehicles are considered 'off-balance sheet', they operate with little regulation. In India, off-balance sheet businesses have witnessed a rapid increase in the post-liberalisation period.
- 9 IMF, Impact of the global financial crisis on Sub-Saharan Africa, 2009
- 10 Director of Madhyam, New Dehli

Colophon

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