

Rising to the Challenge in Asia: A Study of Financial Markets

Volume 5

India

Asian Development Bank
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Foreword

The Asian currency and financial crisis has had far-reaching effects on the regional economies and their trading partners. These effects have threatened to wash away the region's significant social and economic advancement achieved during the preceding years of rapid growth. The crisis has also unveiled many intricate problems and challenges in macroeconomic management, banking and capital markets management, institutional capacity, and governance of the financial systems in the region.

Recognizing the urgency of addressing these problems and challenges, the Economics and Development Resource Center of the Asian Development Bank (ADB) undertook a regional study of financial markets in nine developing member countries: People's Republic of China, India, Indonesia, Republic of Korea, Malaysia, Pakistan, Philippines, Thailand, and Viet Nam. The objectives of the study were to analyze and deepen our understanding of the sources of the crisis in the currency and financial markets, to provide a useful basis for designing and implementing preventive measures and refocused country strategies, and to help ADB and its member countries build robust and sustainable financial systems in the region.

The study was designed, supervised, and coordinated by S. Ghon Rhee, Resident Scholar, 1997–1999. A large number of ADB staff and renowned scholars and experts contributed to this study.

Regional policy issues and recommendations based on the findings of the study were discussed at the High-Level Workshop on the Asian Financial Crisis in Tokyo, on 25–26 March 1999. The workshop was hosted by the ADB, the ADB Institute, and the Institute of Fiscal and Monetary Policy of the Ministry of Finance of Japan.

The present series of publications seeks to bring the research findings to a much wider audience and hopes to contribute to a better understanding of the Asian financial crisis and how its recurrence can be prevented in the future.

Jungsoo Lee
Chief Economist

Preface

Rising to the Challenge in Asia: A Study of Financial Markets presents the findings of a study carried out under *Regional Technical Assistance 5770: Study of Financial Markets in Selected Member Countries*. Many Asian Development Bank staff members and outside experts contributed to the study's successful completion.

The core members for the study were Ramesh Adhikari, David Edwards, Tobias Hoschka, Sudipto Mundle, Soo-Nam Oh, Pradumna Rana, Yutaka Shimomoto, Reza Siregar, Peggy Speck, Ramesh Subramaniam, and Vo Van Cuong. The outside experts were Stephen Cheung (Hong Kong, China), Yoon Je Cho (Republic of Korea), Jang-Bong Choi (Republic of Korea), Catherine Chou (Hong Kong, China), G.H. Deolalkar (India), Maria Socorro Gochoco-Bautista (Philippines), Akiyoshi Horiuchi (Japan), Masahiro Kawai (Japan), Mohammad Zubair Khan (Pakistan), Joseph Y. Lim (Philippines), Sang-Koo Nam (Republic of Korea), Anwar Nasution (Indonesia), Edward Ng (Singapore), Jaeha Park (Republic of Korea), Mohd. Hafiah Piei (Malaysia), Ken-ichi Takayasu (Japan), Khee Giap Tan (Singapore), S. K. Tsang (Hong Kong, China), Stephen Wells (United Kingdom), Richard Werner (Germany), Min-Teh Yu (Taipei, China), and Barents Group LLC (KPMG).

Thirty-seven reports are contained in a series of 12 volumes:

Volume 1: Regional Overview

- Macroeconomic Policy Issues
- Banking Policy Issues
- Capital Market Policy Issues

Volume 2: Special Issues

- Asset Management Entities
- Deposit Protection Schemes

Volume 3: Sound Practices

- Corporate Governance (Hong Kong, China)
- Currency Board (Hong Kong, China)
- Central Provident Fund (Singapore)
- Dichotomized Financial System (Singapore)
- Banking Sector (Taipei, China)

Volumes 4–12: Country Studies

- Macroeconomic Policy Issues
- Banking Policy Issues
- Capital Market Policy Issues

The volumes benefited extensively from constructive comments from the Bank interdepartmental working group, and the ministries of finance, central banks, and securities and exchange commissions of the nine member countries that participated in the regional technical assistance study program and in the High-Level Workshop on the Asian Financial Crisis in Tokyo, on 25–26 March 1999. Mitsuo Sato, former President of the Asian Development Bank; Bong-Suh Lee, former Vice-President (Region West); and Peter Sullivan, Vice-President (Region East) provided strong support and guidance throughout this project.

Soo-Nam Oh coordinated the research and publication activities. Wilhelmina Paz, Lagrimas Cuevas, Anthony Ygrubay, Ruben Mercado, Virginia Pineda, and Rosalie Postadan provided administrative and technical support. The volumes were edited by Gloria Argosino, Mary Ann Asico, Graham Dwyer, and Muriel Ordoñez. Typesetting, computer graphics, and conceptualization of the cover design were done by Segundo de la Cruz, Jr.

S. Ghon Rhee

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(June 1997–June 1999)

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Acronyms and Abbreviations

ADB	Asian Development Bank
AD	authorized dealer
AIFI	all India financial institution
ALM	asset liability management
ARC	asset reconstruction company
ARF	asset reconstruction fund
ASEAN	Association of Southeast Asian Nations
ATM	automated teller machine
BIC	bank intermediation cost
BIFR	Board for Industrial and Financial Reconstruction
BFRS	Board for Financial Regulation and Supervision
BFS	Board for Financial Supervision
BI	banking institution
BIS	Bank for International Settlements
BJP	Bhanatiya Janata Party
bp	basis point(s)
BSE	Bombay Stock Exchange
CAC	current account convertibility
CACS	capital adequacy, asset quality, compliance, and systems
CAMELS	capital adequacy, asset quality, management, earnings, liquidity, and systems
CAR	capital adequacy requirement/capital adequacy ratio
CCI	Controller of Capital Issues
CD	certificate of deposit
CFS	Committee on Financial System
CISA	certification of information systems auditors
CP	commercial paper
CPI	consumer price index
CRAR	capital to risk-weighted assets ratio
CRR	cash reserve ratio/cash reserve requirement
DCA	Department of Company Affairs
DFHI	Discount and Finance House of India Ltd.
DFI	development finance institution
DRT	Debt Recovery Tribunal
EDI	electronic data interchange
EER	effective exchange rate
EFT	electronic funds transfer
FCCB	Foreign Currency Convertible Bond
FCNR	foreign currency nonresident
FDI	foreign direct investment

FDIC	Federal Deposit Insurance Corporation (US)
FI	financial institution
FII	foreign institutional investor
FIPB	Foreign Investment Promotion Board
FIRE	Financial Instruments Reform Expansion
FISE	Federation of Indian Stock Exchanges
FWG	First Working Group on Money Supply
FY	fiscal year
GAAP	generally accepted accounting principles
GDP	gross domestic product
GDR	global depository receipt
GIC	General Insurance Corporation
HFC	Housing Finance Company
IBA	Indian Banks' Association
ICICI	Industrial Credit and Investment Corporation of India
IDBI	Industrial Development Bank of India
IDFC	Infrastructure Development Finance Company Ltd.
IFCI	Industrial Finance Corporation of India
IMF	International Monetary Fund
IPO	initial public offering
ISESC	Indian Stock Exchanges Services Corporation
IT	information technology
JIT	just in time
LERMS	Liberalized Exchange Rate Management System
LIBOR	London interbank offered rate
LIC	Life Insurance Corporation of India
MB	merchant bank
MITI	Ministry of International Trade and Industry (Japan)
MODVAT	moderate value added tax
NABARD	National Bank for Agriculture and Rural Development
NAV	net asset value
NBFC	nonbanking financial company
NBFI	nonbanking financial institution
NBCG	net bank credit to government
NBCCS	net bank credit to commercial sector
NHB	National Housing Bank
NIPFP	National Institute of Public Finance and Policy
NOF	net owned fund
NPA	nonperforming asset
NPL	nonperforming loan
NRI	nonresident Indian
NSDL	National Securities Depository Ltd.

NSE	National Stock Exchange
OCB	overseas corporate body
OTCEI	Over-the-Counter Exchange of India
PC	personal computer
PCB	primary (urban) cooperative bank
PPF	Public Provident Funds
PRC	People's Republic of China
PSB	public sector bank
PSU	public sector undertaking/public sector unit
PV	present value
QR	quick response
RBI	Reserve Bank of India
RCTC	Risk Capital and Technology Corporation
REER	real effective exchange rate
RER	real exchange rate
RRB	regional rural bank
SAP	standard auditing practice
SBI	State Bank of India
SCB	scheduled commercial bank
SCR	Securities Contract Regulation
SDR	special drawing rights
SEBI	Securities and Exchange Board of India
SFC	state financial corporation
SIA	Secretariat for Industrial Assistance
SICA	Sick Industrial Companies Act
SIDBI	Small Industries Development Bank of India
SIDC	State Indian Development Corporation
SII	small-scale industry
SLR	statutory liquidity requirement
SRO	self-regulatory organization
SSI	small-scale industry
STD	short-term debt
SWG	Second Working Group on Money Supply
TDICI	Technology Development and Information Company of India
TFCI	Tourism Finance Corporation of India
TWG	Third Working Group on Money Supply
UK	United Kingdom
UCB	urban cooperative bank
US	United States
USAID	United States Agency for International Development
UTI	Unit Trust of India
VDIS	Voluntary Disclosure of Income Scheme

WPI	wholesale price index
WMA	ways and means advances

\$ refers to US dollars.

Korea pertains to the Republic of Korea.

Exchange rate (October 1999) = about Rs40 to \$1.

1 lakh = Rs100,000; 1 crore = Rs10 million.

/ between years (e.g., 1997/98) indicates fiscal year.

India's fiscal year begins on 1 April.