

accounts can be opened without any documentation by just giving a self certification in the presence of bank officials. 'Aadhaar', the unique identification number being issued to all citizens of India, can be used as one of the eligible document for meeting the KYC requirement. Talking of Aadhaar, it is important to emphasise the role that it can play alongside financial inclusion in plugging leakages due to corruption in social welfare schemes. The much debated direct-benefit-transfer will be possible only when the target population has access to banking services. And hence, financial inclusion is the way forward.

Future Strategy

SCRIPT- Savings, Credit, Remittance, Insurance, Pension, Payments transactions is an acronym that condenses the services of banks. The key to successful financial inclusion lies in recognizing the demand for the kind of banking services in the rural sector. Opening of no-frills account, an account that can have "nil" or negligible minimum balance along with ATM/debit card facilities allowing upto four withdrawals per month is the first step in this direction. Some other basic facilities being offered are- pure savings account, ideally a recurring or variable recurring deposit, a remittance product to facilitate EBT and other remittances, and entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC).

Technology has always been the engine of growth. The reach of the mobile phone extends to the remotest villages today and mobile banking can be the way forward. Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelise their savings, stoke their entrepreneurial ambitions by making available credit and

thus give a fillip to the economy. The use of Hand Held Devices, Point of Sale machines, micro-ATMs, Banks-on-wheels could be adopted more to achieve the aim of inclusive growth which is needed for the sustainable development of the country.

Financial inclusion is not an option anymore, it is a NECESSITY.

State of Recovery and Raising the Repo Rate

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The World Bank and the IMF have held out hopes of a recovery. A growth rebound in the US, signs that the recession has bottomed in Europe, and expectations that growth would revive in developing countries other than China seem to underlie the optimism. But, as the Chief Economist of the World Bank, Kaushik Basu, in an effort to protect the organisation against the likelihood of its projection proving wrong said that they were "cautiously optimistic". The reasons for this caution are obvious. First, as of now, every significant country of the world is either still in the midst of stagnation or growth deceleration. The 'recovery' is largely because of a minor upturn in a bent, from still low levels. But, as the Financial Times recently noted: "For the past four years, analysts have predicted an imminent acceleration in the US economy, and got it wrong. The mediocre record is growth of 2.5 per cent in 2010, 1.8 per cent in 2011, 2.8 per cent in 2012 and something around 2 per cent in 2013."

The second is that interest rates in Japan the US and the Euro zone are either near zero or extremely low. This implies that monetary policy to stimulate growth, in the form of a reduction in interest rates, has run its course there without much impact. On the other hand, the space for fiscal activism is seen as restricted. Getting a recovery going is, therefore, even more difficult.

Finally, in countries like China and India, besides other emerging markets, the growth slowdown is accompanied by a rise in inflation rates. That makes addressing the slowdown through demand stimulation that much more difficult. India's central bank has just "shocked" markets by raising the policy repo rate by 25 basis points to 8 per cent. This, the third increase in six months, was a declaration that fighting inflation must take precedence over stimulating growth.

Reasons for raising the repo rate

Curbing inflation is the priority. The evidence is clear that across emerging markets central banks are under pressure to raise interest rates despite slowing growth due to rising retail inflation rate.

Preventing the flight of capital from India to developed economies. The gradual reduction in the Federal Reserve's bond purchase policy (following the policy of monetary tightening i.e less money available in the economy) is expected to push up interest rates in the developed countries. This is forcing emerging markets to maintain high and rising interest rates in the hope that they can withstand the hit from developed countries' interest rates, which would suck out capital from emerging markets. This means that when developed economies follow a policy of monetary tightening, it will raise the interest rates in their country, and

considering that they are places where investments are safer with very low probability of default, investors may be tempted to take out their money from emerging market economies like India and invest there.

There is evidence about this too. In the week ending January 24, 2014 and the week that followed, emerging country stock indices fell sharply and currencies depreciated because of capital flight, necessitating an emergency response by Argentina and Turkey to stem the fall of the peso and the lira.

Gloomy expectations about emerging markets and deflation in developed economies

Besides the tapering, investor jitters seem linked to the expectation that the world economy is headed for another downslide.

Besides the loss of momentum in China and India, those fears stem also from the threat of deflation in the developed countries. Deflation results in the improvement of production efficiency, due to lowering of the overall price of commodities

Put together these developments and responses, the signal we get is that the world economy is not just still caught in a trough, but that the possibility of the "bottom" of that trough giving way for a further dip is all too real. Seen in that context the recent growth projection exercises by the Bank and the Fund appear to be more a way of talking up markets and persuading governments and central banks to act rather than a confident prediction that the worst is over.