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IMPACT OF FINANCIAL LIBERALIZATION ON PERFORMANCE OF BANKING INDUSTRY IN INDIA

KEY WORDS:

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The Indian financial sector contains an expansive system of commercial banks, financial organizations, stock exchanges and an extensive variety of financial instruments. It has experienced a noteworthy structural conversion since the launch of financial liberalization in 1990s. When financial liberalization, since mid 1960's till the early 1990', the Indian financial system was acknowledged as an instrument of public account (Agarwal, 2003). The development of Indian financial sector in the post autonomous period could be isolated into three different periods. Throughout the leading period (1947-68), the Reserve Bank of India (Rbi) merged its part as the organization in charge of supervision and banking control (Sen & Vaidya, 1997). Till 1960's the neo-Keynesian viewpoint overwhelmed, contended investment rates ought to be kept low keeping in mind the end goal to advertise capital gathering (Sen & Vaidya, 1997). Throughout this period Indian financial sector was described by nationalization of banks, guided credit and regulated premium rates (Lawrence & Longjam, 2003). The second period (1969 - mid 1980's), regarded as the period of financial repression. The financial repression began with the nationalization of 14 commercial banks in 1969.

Subsequently investment rate controls, guided credit programmes, and so forth expanded in greatness throughout this period (Sen & Vaidya, 1997 & Nair). The third period, mid 1980's onwards, is described by combination, broadening and liberalization. However a more comprehensive liberalization programme was launched by the government of India throughout right on time 1990's.the driving force to financial sector reforms accompanied the tameness of three persuasive reports by the Chakravarty Committee in 1985, the Vaghul in 1987 and the Narasimham Panel in 1991. Yet the suggestions of the Narasimham Committee gave the outline of the reforms, particularly with respect to banks and other financial foundations. In 1991, the government of India launched a comprehensive financial sector liberalization programme.

The liberalization programme incorporates de-regulated investment rates, diminished store degrees and gradually diminished government control of banking operations while creating a market administrative system (Lawrence & Longjam, 2003).

The real targets of the financial liberalization were to enhance the generally speaking execution of the Indian financial sector, to make the financial foundations more skilled and more productive. As specified prior, the financial sector embodies commercial banks, stock exchanges and other financial foundations. Notwithstanding, Indian financial system proceeds to be a bank based financial system and the banking sector assumes an imperative part as an asset mobiliser. It remains the essential wellspring of assets for numerous families, little and medium ventures furthermore additionally caters the vast businesses. What's more likewise gives numerous other financial administrations. Underlining the vitality of the banking sector, numerous banking sector particular reforms s a part of financial reforms were acquainted with enhance the execution of the Indian banking sector and to make the Indian banks more equipped and productive. Against this scenery, the present research aims to study the execution of the Indian banking sector in the post liberalization period. At the same time, it additionally means to verify the cost efficiency of the Indian banks in connection of financial liberalization.

Do financial sector reforms essentially bring about development of credit to the private sector, and how does bank proprietorship influence this relationship? Exact confirmation is to a degree blended on these issues. This study utilizes the Indian experience with liberalization of the financial sector to advise this verbal confrontation. As a part of its by and large program of economic liberalization, India started noteworthy financial sector reforms in the mid-1990s. These incorporated maneuvering the section of new private and remote banks, changing premium rate controls, upgrading the part of market strengths, and decreasing state pre-emption of bank credit through diminishments available for later what's more statutory liquidity necessities, which together stood at over 50 percent of stakes in 1992. Be that as it may, regardless of these measures, the essential proprietorship structure of the existing banks remained extensively comparable even numerous years after liberalization had initially begun. In spite of the fact that there has been a noteworthy expand in the stake of private and remote banks in aggregate possessions, the Indian banking system has remained predominantly state-possessed. In the mean time, the financial setback and the level of government obligation have remained high, with the joined together financial shortage of the elected and state governments averaging about 7.8 percent of Gdp between 1992 and 2007, and public obligation totaling in the ballpark of 80 percent of Gdp in 2007.

In the course of the most recent two decades, numerous rising economies have actualized financial liberalization arrangements. These approaches point at improving rivalry, making strides asset designation, and obtaining more effective financial foundations, by making them less stateadministered and by presenting them to expanded market rivalry (Barajas and Steiner, 2000). The inquiry, nonetheless, is if these approaches have in fact been fruitful in attaining these outcomes.

Just a couple of studies have investigated the efficiency impacts of financial liberalization arrangements in developing economies. The availabe confirmation furnishes blended comes about on the relationship between bank efficiency and financial liberalization. These blended outcomes may be because of different explanations, of which we specify two here. Initially, most accessible studies keep tabs on only one nation, leaving open the likelihood that in one nation bank efficiency enhances after liberalization, while in an alternate nation the inverse is discovered. Nation particular studies, thusly, might make it more challenging to think of general conclusions with respect to the effect of financial liberalization on bank efficiency. Second, most studies focus on just one or a few dimensions of financial liberalization.

This study aims at improving on the previous empirical literature by using a multi-country sample. Moreover, we use a unique dataset, provided by Laeven (2003), which includes different dimensions of financial liberalization policies. Based on this dataset we are able to measure the depth of financial liberalization at the country level and link changes in the depth of financial liberalization to changes in bank efficiency over time.

FINANCIAL LIBERALIZATION

Financial liberalization (Fl) alludes to the deregulation of local financial markets and the liberalization of the capital record. The impact of liberalization inside an economy has dependably been exceptionally begging to be proven wrong in view of its gradually expanding influences. It is accepted to have an in number impact on financial development and long haul advancement of an economy where as it may accelerate regular emergencies because of the unpredictability of the organizations. India is one of the most recent nations that have encountered financial liberalization and the impact of FI is very obvious in just about each sector (Klein 2005). Financial liberalization is known to give development to the economy. There are distinctive explanations for it - First, presentation of liberalization presents nearby organizations to enter new innovations, better middle of the road inputs and develops their decision set to act. There is a flexibility in the market which really builds the rivalry in the market and consequently, organizations dependably give their best to perform taking care of business level. Organizations likewise attempt to utilize better enhancement as a part of request to better get together the requirements and requests of the clients. Inventive annihilation turns into a regular sensation which makes wasteful firms to leave the market. Thusly, variables reallocated to additional profitable utilization expanding the generally gainfulness of elements in the economy.

The liberalization exertion that started in the early 1990s was clearing in extension and touched most financial markets (see Mohan (2004)). Banking reforms incorporated the evacuation of controls on premium rates, decreases available for later and liquidity proportions, section deregulation, unwinding of credit controls, and the presentation of a between bank currency market and in addition closeout based repos and converse repos. Utilizing the information on financial reforms put together by Abiad, Detragiache and Tressel (2010) one can track the pace of financial liberalization in India and contrast it and the normal for rising Asia and the World. Abiad et al, utilizing the information for 91 economies in 1973–2005, record financial approach changes along the accompanying seven sizes: credit controls and save necessities, investment rate controls, passage restraints and state proprietorship, arrangements on securities markets, banking regulations, and limitations on capital record, and total these in a composite list of financial liberalization for every nation, which is standardized between zero and one.