CHANDIGARH GROUP OF COLLEGES
Campus : Jhanjeri, Mohali

International journal Of Business Management
ISSN NO. 2349-3402
Available at www.ijbm.co.in
VOL. 3 Issue 1, 2017

Financial sector reforms

Kirandeep Kaur[1]

Abstract

India's financial system comprising its banks, equity market, and bond marketing, financial institutions is crucial determinant of the country's economic growth. Financial sector reforms in India introduced as a part of the structural adjustment and economic reforms programmed in the early 1990s have had a profound impact on the functioning of the financial institution especially banks .A special committee appointed on the financial system to look into all aspects of the financial system and make comprehensive recommendations for reforms in banking, forex market ,debt market and other sector reforms .The paper is present financial sector reforms ,its objective and various phases of financial sector reforms .

Key words: Financial sector, Objectives of financial sector reforms, approaches of financial sector reforms, principles of financial sector reforms, phases of financial sector reforms.

1.Assistant Professor (Commerce),Swift Technical Campus, Ghaggar Sarai, Rajpura

Meaning of financial sector

Financial sector is a category of stocks containing firms that provide financial services to commercial and retail customers .This sector include banks, investment funds, insurance companies and real estate .a large proportion of this sector generate revenue from mortgages and loans .financial sector is that segment of a national economy which encompasses the flow of capital.

Introduction to Financial Sector Reforms

Financial sector is the backbone of every economy and it play a crucial role in the mobilization and allocation of resources .The constituents of the financial sector are banks financial institutions ,financial instruments and markets which mobilize the resources from surplus sector and channelize the same to the different needy sectors in the economy. Financial sector reforms have long been regarded as an important part of agenda for policy reforms in developing countries .This was because they were expected to increase the efficiency of resource mobilization and allocation in real economy which in turn was expected to generate higher rate of growth.

CHANDIGARH GROUP OF COLLEGES
Campus : Jhanjeri, Mohali

International journal Of Business Management
ISSN NO. 2349-3402
Available at www.ijbm.co.in
VOL. 3 Issue 1, 2017

Financial sector reforms means to improve the allocative efficiency of resources and ensure financial stability and maintain confidence in the financial system by enhancing its soundness and efficiency .reforms of the financial sector was recognized from the very beginning, as an integral part of the economic reforms initiated in 1991.The economic reform process covered two serious crisis involving the BOP (balance of payment) crisis and facing the problem of banking system. With increasing globalization in Indian economy, the reform process witnessed a significant move toward adoption of international best practices in several areas like banking supervision and corporate governance.

Objective of Financial sector reforms

1. The main objective of the financial sector reforms is to allocate the resources efficiently, increasing the return on investment and accelerated the growth of real sector in the economy.

2. Create an efficient, competitive and stable that could contribute measure to stimulate growth.

3 . Relaxation the external constraints in the operation of banking sector, restructuring, recapitalization in the competitive element in the market through the entry of new banks.

4. Increased transparency in the banking system through the introduction of prudential norms and increase the role of the market forces due to the deregulated interest rates.

5. Remove financial repression and provide operational and functional autonomy to institutions.

6. Promote the maintenance of financial stability even in the face of domestic and external shocks.

Phase of financial sector reforms

The first phase, also known as **first generation** reform. Financial sector reforms start its works in the early 1990s, by which the Indian economy has achieved high growth in an environment of macro-economic and financial stability .the period has been marked by broad based economic reform that has touched every segment of the economy .These reforms were designated essentially to promote greater efficiency the economy through promotion of greater. In this phase the health of financial sector has recorded very significant improvement.

The main objective of the financial sector reforms in India was to create an efficient, productive and profitable financial services industry. Narasimham committee view that in this phase that the objective of financial sector reforms in India should not focus on correcting the present financial weakness but should strive to eliminate the roots of the cause of the present challenges faced by the Indian market economy.

Second Generation reforms

Second generation reforms or the second phase of the reforms commenced in the mid 1990s and laid greater emphasis on the strengthening the financial system on the introduction of the structural improvements .Narasimham committee II was to look into the extent of the effectiveness of the implementation of reforms suggested by Narasimham committee I and was entrusted with the responsibility to lay down a course of future reforms for the growth and integration of the banking sector with international standard.

Principles of financial sector reforms

1. Development of financial institution.

2. Development of efficient, competitive and stable financial sector

3. Mutually reinforcing measures that would serve as enabling reforms which would not in any way disrupt the confidence in the system.

4. Development of the financial infrastructure in terms of technology, changing real framework, setting up of a supervision body laying down of audit standards.

5. Initiatives to nurture integrate and develop money, forex, debt market.

6. Introduction of complementary reforms across monetary, fiscal and external sector.

7. Introduction of various measures by cautious and gradual phasing this giving time to various agents to carry out necessary norms.

Approaches of financial sector reforms

Financial sector reforms can be divided into four approaches.

1. Banking sector reforms

2. Debt Market reforms

3. Forex market reforms

International journal Of Business Management
ISSN NO. 2349-3402
Available at www.ijbm.co.in
VOL. 3 Issue 1, 2017

4. Reforms in other segment

Banking sector reforms

Despite the general approach of the financial sector reforms process, many of regulatory and supervisory norms were started out first for commercial banks and thereafter were expanded to other financial intermediaries. It consists of a two -fold process. Firstly, the process involved recapitalization of banks from government resources to bring them at par appropriate capitalization standards. On a second level ,an approach was adopted replacing privatization .The main idea was to increase the competition in the banking system .The main aim of banking sector reforms was to promote a diversified ,efficient and competitive financial system with ultimate goal of improving the allocate efficiency of resources through operational flexibility ,improved financial viability and institutional strengthening. There are many reforms taken for enhancing the effectiveness of banking system like prudential norms, supervisory measures, technology related measures.

1. Introduction and phased implementation of international best practices

2. Norms for risk -weighted capital adequacy requirements, accounting, income recognition

3. Measures to strengthen risk management through recognition of different components of risk, norms on connected lending, risk concentration.

4. Granting of operational autonomy to public sector banks, transparency norms for entry of Indian private sector, foreign and joint -venture investment in the financial sector in the form of FDI (foreign direct investment)

5. Establishment of board for financial supervision as the apex supervisory authority for banks, financial institution and NBFC (non banking financial companies)

Debt Market reforms

Major reforms have been carried out in the government securities debt market .Functioning of Government securities debt market was really initiated in the 1990s.The system had to essentially move from a strategy of pre-emption of resources from banks at administrated interest rates and through monetization of a SLR(statutory liquidity ratio)The high SLR reserve requirement lead to the creation of a captive market for government securities which were issued at low administrated interest rate .Major reforms in the debt market is

International journal Of Business Management
ISSN NO. 2349-3402
Available at www.ijbm.co.in
VOL. 3 Issue 1, 2017

1. Administrated interest rates on government were replaced by an auction system for price discovery.

2. Primary dealers were introduced as market makers in the government securities market

3. Repo was introduced as a tool of short -term liquidity adjustments.

4. Foreign institutional investors were allowed to invest in government securities in certain limit

5.91-day treasury bills were introduced for managing liquidity.

Forex Market Reforms

The forex market exchange market in India had been characterized by heavy control since the 1950s along with increasing trade control designed to foster import substitution .Both current and capital accounts were shut and forex was made available through a complex licensing system undertaken by the RBI .The reforms were taken in forex market are

1. Evolution of exchange rate regime from a single -currency to fixed exchange rate system to fixing the value of rupee against a basket of currencies.

2. Replcaement of the earlier FERA act 1973, by the market Friendly FEMA act 1999.

3. Development of rupee -foreign currency swap market.

4. Permission to various participants in the foreign exchange market including exporters, FIIS (foreign institutional investors).

5. Foreign exchange earners permitted to maintain foreign currency account.

Reforms in other segments of the financial sector

Measures aimed at establishing prudential regulation, supervision, competition and efficiency enhancing measures have also been introduced for non-bank financial intermediaries (NBFs).Development finance institution,NBFs ,urban cooperative banks, specialized term-lending institution and primary dealers all of these have been brought under the regulation of the board for financial supervision.

For increasing transparency ,market efficiency ,integration of national markets and prevention of unfair trade practices regarding trading regulate and develop capital market was introduced .Another important reforms is establishment of SEBI act 1992 as a regulator for equity markets. Mutual funds have been permitted to open offshore funds for the purpose of

International journal Of Business Management
ISSN NO. 2349-3402
Available at www.ijbm.co.in
VOL. 3 Issue 1, 2017

investing in equities. The Indian corporate sector have been allowed to tap international capital markets through ADRs (American depository receipt), GDRs (Global depository receipt), FCCBs (foreign currency convertible bonds), and NRIs (non-resident Indians) have been allowed to invest in Indian companies.

Conclusion

India has taken dramatic strides in recent tears to advance financial sector reforms .But in a fast -evolving market place, reforms is by necessity a continues process. It is important to note that financial sector reforms by themselves cannot guarantee good economic performance. That depends upon a number of other factors, including especially the maintains of as a favorable macro -economic environment and the pursuit of much needed economic reforms in other parts of the real economy. It conclude that finance and growth are interlinked; with increasing developments all around the world, the Indian banking and financial system has to develop in a manner that stimulates growth and competition .most of the changes or amendments are recommends in the legislative framework by both of the Narasimham committees (I & II) have been carried out although much still needs to be done. India has undergone more than decade of financial sector reforms which has lead to substantial transformation and liberalization of the entire financial sector.

References

1. Singh, A 'financial liberlisation and economic development 'ECONOMIC JOURNAL.
2. Reserve banks if India (1991) report of the committee on financial system (chairman shriM.Narasimham)
3. Reserve banks if India (1997) report of the committee on banking sector reforms (chairman shri M.Narasimham
4. Varma J.R and vivek Moorthey (1996),"Debt market Reforms: The missing ingredient", Economic times.
5. Reddy, y.v.,"Reforming India's financial sector: changing dimensions and emerging issues

.