Unit-I

Lecture-12

Financial Sector Reforms

Financial Sector Reforms are the steps taken to change the banking system, capital market, government debt market, foreign exchange market, etc. An efficient financial sector enables the mobilization of household savings and ensures their proper utilization in productive sectors.

The financial sector forms the backbone of an economy and includes the sore sectors such as banking, foreign exchange, insurance. In order to break the colonial hegemony of policies, various reforms in the financial sector were carried out that enabled the strengthening of the banking sector, better management of foreign reserves, etc enabled in economic growth and development.

Need for Financial Sector Reforms

- After independence India inherited a colonial legacy that was full of various social and economic deprivations.
- The planned economic development strategy adopted based on the Mahalanobis model had its limitations that started showing in the 1980s.
- In order to achieve various economic goals, the government resorted to increased borrowings at concessional rates which lead to weak and underdeveloped financial markets in India.
- The nationalization of banks increased government control and decreased the role of market forces in the financial sector.
- Increased bureaucratic control, issues of red-tapism increased the non-performing assets.
- Turbulent international events such as the war in the Middle East and the fall of the USSR increased the pressure on the Foreign Exchange Reserves of India.