

Abstract of Doctoral Dissertation

Growth, Productivity and Efficiency of Indian Banking Sector¹

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I. Introduction

THE DEVELOPMENT OF financial system depends upon the development of its two major components which include financial intermediaries and financial markets. Given their diverse role, it is widely accepted that both financial intermediaries and financial markets help in improving economic allocation and thereby promote productive growth all around. It is evidenced by different empirical studies that financial intermediaries not only facilitates the allocation of savings to the productive investments, but also lead to lower rate of unnecessary project liquidation thereby improving the efficiency and promoting the growth. In a developing country like India, where a large number of small investors are present and financial market is not fully developed and there is high possibility of incomplete as well as asymmetric information. In this type of environment the financial intermediaries role become critical in the development of financial system. The major function of the financial intermediaries is to increase the prosperity to save, provide liquidity and channelizing the funds to most productive projects and sectors of the economy.

At the time of independence, India inherited an extremely weak banking structure and majority of banking activities were concentrated in metropolitan centres and towns. The nationalization of banks (in 1969 and second in 1980) with this objective makes the banks more amenable to support government policies. The policy of the government was to control the commanding heights of the economy and to meet progressively the needs of development of the economy in conformity with national objectives.

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