# THE ROLE OF FOREIGN DIRECT INVESTMENT IN BANKING SECTOR REGARDING ECONOMIC DEVELOPMENT IN INDIA

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**ABSTRACT** :

In Dynamic economic environment , FDI acts as animating spirit for developing economy like India . FDI plays a significant role in progress of Indian banking sector . The Indian banking system has transformed radically since 1991 LPG policy . this policy has brought a positive impact on banking sector as well as over all economic development of India. FDI in banking sector has been permitted in private bank upto 74% , while in public bank this ceiling is 20 %.This paper discuss about the FDI in banking sector , issues of banking system ,recent change in banking system and benefit of FDI in banking sector as well. This study is based on secondary data , which are collected from various sources, such as journals, reports, research paper and RBI sites.

**KEYWORD –** FDI, Public Bank, Private Bank, Economic Development

## 1. INTRODUCTION :

Since 2017 Indian economy is suffering from cyclical fluctuation, in which FDI acts as a bridge to fulfil the gap between investment and saving. It provides multifarious opportunity in every sector of the economy in the form of technology transfer and up gradation , optimal utilization of human capabilities and natural resources, making industries internationally competitiveness ,access to global managerial skills and practices , access to internationally quality of goods and services and augmenting employment opportunities.

Banking sector is considered as lifeblood of the economy, which provides several platform for the development of the economy. According to the Department for promotion of industry and internal trade Oct 2020 , the upper cap of FDI in private sector is 74% whereas in public sector, this ceiling is 20%. However FDI in banking sector has lot of opportunity and challenge as well. In 2008 when USA and world economy had been suffering from the subprime crisis, then

Indian financial sector had been influenced as well, however banking sector had maintained its business due to support of saving habits of Indian middle man and better controlled system.

## 2. REVIEW OF LITERATURE :

Richa Gang (2013) discussed the role of FDI in the Indian Banking sector and recognized that other than solving the banking issues, it encourages the development of different innovative financial products, increases efficiency, productivity, and profitability and enhances the ability to adapt the changing financial market.

Sheeba D L, Dr. B. S Patil & Dr. Srinivas K T (2015), have expressed the impact of FDI on the potency of South Asian national Bank India, The analysis from the year 2005 to 2015 shows that FDI in South Indian Bank has a positive impact on the overall performance of the bank. The productivity and profitability of the banks have redoubled by a rise within the flow of FDI. The rise within the flow FDI includes a valuable impact within the profit per worker of the South Indian Bank.

Malla Reddy (2014) highlighted that FDI through providing capital, Productivity enhancement and employment plays a vital role in economic development. FDI as a non-debt inflows helps in the up-gradation of technology, skills and managerial capabilities of Indian Banks. It can solve various issues like inefficient management, increased NPAs, financial instability, and poor capitalization.

Laghane. K.B (2007), LPG (liberalization, privatization and globalization) sponsored FDI model's impact positively on the effectiveness on the overseas banks and Indian banks. In his study He found that FDI must be seen as to reducing poverty, unemployment and increase primary education and priority sector of banking. Due to LPG, Indian banks stand their business at global and many foreign banks setting up market in India.

Bhattacharyya Jita, Bhattacharyya Mousumi (2012), "Impact of FDI and Merchandise and Services Trade of the Economic growth in India: an Empirical study" , this study exposed that there was a long term bonding between FDI, banking, services business and economic growth of India. Bi-directional causality is experiential between merchandise trade and economic growth, services trade and economic growth.

## 3. OBJECTIVE :

1. To analyse FDI inflows in banking sector.
2. To study the benefit of FDI in banking sector.
3. To find out the issues of banking sector.

4. To investigates the recent change in banking sector.

## 4. RESEARCH METHODOLOGY:

The present study is analytical and descriptive in nature. Data are based on the secondary sources, which is collected from the various place of origin such as journals, reports, research paper and Handbook of Statistics on Indian Economy published by RBI from year to year.

## 5. FDI IN BANKING SECTOR IN INDIA:

The FDI in private sector has been fixed at 74% by automatic route upto 49%and the government route beyond 49%and upto 74%, while the public sector bank ,this ceiling is 20%, which is also applicable to the state bank of india.

Condition :

1) This 74% limit will include investment under the Portfolio Investment Scheme (PIS) by /FPIs, NRIs and shares acquired prior to September 16, 2003 by erstwhile OCBs, and continue to include IPOs, Private placements, GDR/ADRs and acquisition of shares from existing shareholders. (2) The aggregate foreign investment in a private bank from all sources will be allowed upto a maximum of 74 per cent of the paid-up capital of the Bank. At all times, at least 26 per cent of the paid-up capital will have to be held by residents, except in regard to a wholly-owned subsidiary of a foreign bank.(3) The stipulations as above will be applicable to all investments in existing private sector banks also.(4) Other conditions in respect of permissible limits under portfolio investment schemes through stock exchanges for /FPIs and NRIs, setting-up of a subsidiary by foreign and limits in respect of voting rights.

**FDI equity inflows to Banking sector Table** ::

| YEARS | FDI Equity Inflows to Banking Sector(Crore) |
|---|---|
| 2005 | 1876.88 |
| 2006 | 1935.86 |
| 2007 | 2954.39 |
| 2008 | 2200 |
| 2009 | 1912.6 |
| 2010 | 1988.33 |
| 2011 | 1092.565 |
| 2012 | 1510.79 |
| 2013 | 1401.56 |
| 2014 | 1601.56 |
| 2015 | 1701.56 |
| 2016 | 3,074.03 |
| 2017 | 3275.45 |

(Source: Department for Promotion of Industry and Internal Trade)

The above tables indicates that from the year 2005 to 2007 , there was a consistent rise in the FDI equity inflows in the banking sector which was followed by a decline in FDI inflows due to the melt down of US economy on the account of the subprime mortgage crisis. Duo to the high profitability of Indian sector in 2014 , which was the result of the stable government attracted more and more FDI inflows in india.

**6. BENEFIT OF FDI IN BANKING SYSTEM**

I. Technology transfer from overseas nations to domestic markets.
II. Reduce financial instability in the banking sector.
III. Assure better risk management in financial sector.
IV. Provides better capitalization.
V. Enhance the productivity and profitability of banking sector.

**7. ISSUES OF BANKING SECTOR:**

I. Non-performing assets .
II. Inefficiency in management.
III. Instability in financial matters.
IV. Lack of Innovativeness in financial products and schemes.
V. Lack of technical development in banking sector.
VI. Poor marketing strategies.
VII. Changing financial market conditions.

**8. RECENT CHANGE IN BANKING SECTOR**

I. Computerization of banking system.
II. Core banking system.
III. ATM services
IV. Telephone banking, Mobile banking and SMS banking.
V. Internet or Online banking
VI. Better customer services.

**9. CONCLUSION :**

FDI is one of the major macroeconomic variable in the progress of banking sector as well as economic development in India. A healthy banking system is the backbone of the economy. The latest change in banking system provides technology based banking products and services to their customers. Due to 3th large economy of the world in terms of purchasing power parity, rise in international service transactions and economic integration, these will further led to high opportunities for FDI inflow in banking sector.

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