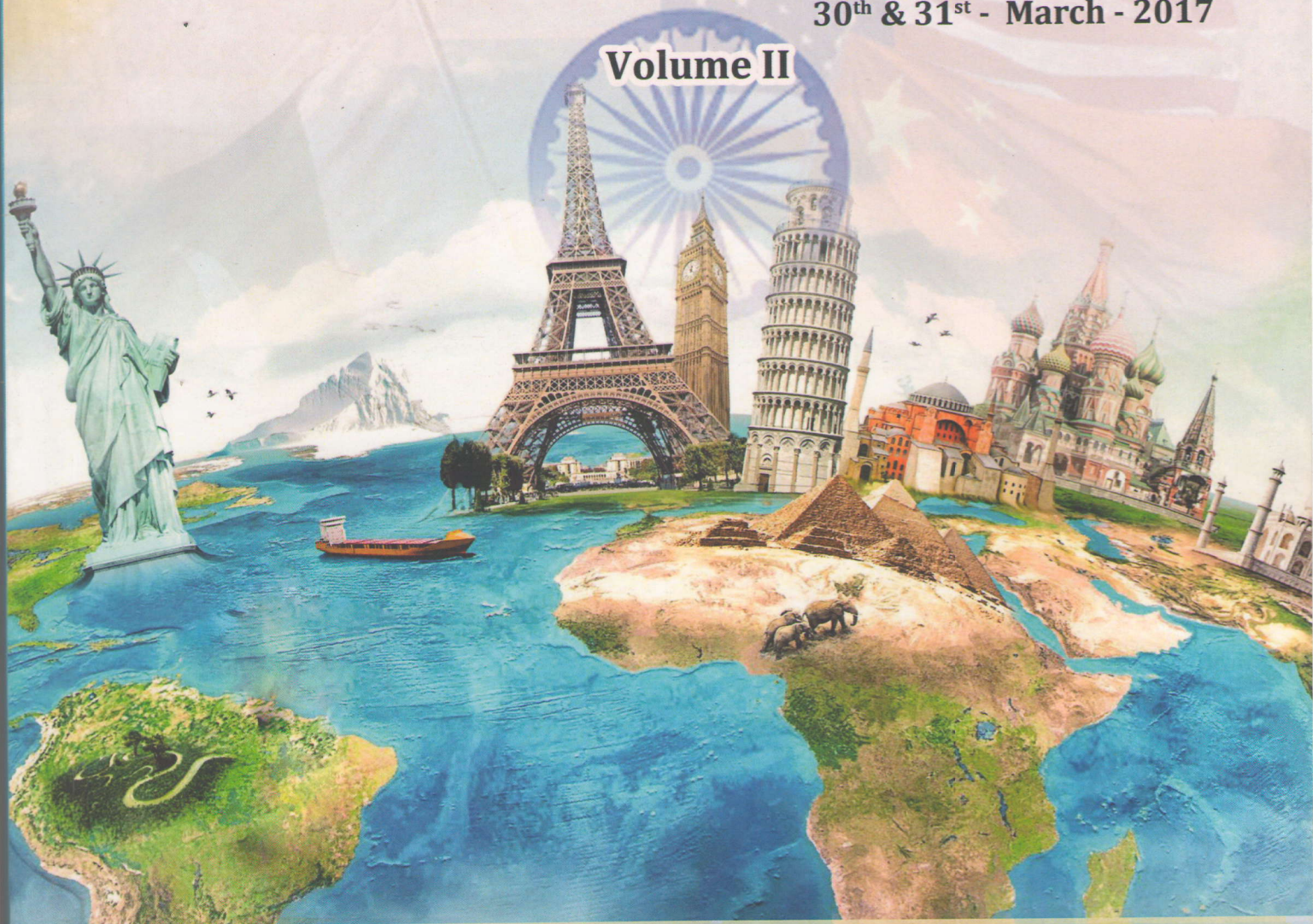


International Conference
on
**India's Foreign Policy Transformation:
Issues & Challenges**

(ICIFPT - 2017)

30th & 31st - March - 2017

Volume II



Sponsored by



Indian Council of World Affairs
Sapru House, Barakhamba Road
New Delhi

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School of Management Studies
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Foreign Direct Investment Flow into Indian Banking Sector – A Paradigm Shift

Dr. V. Vimala

Abstract—The FDI in the Indian Banking Sector plays a dominant role whose gloom and boom is largely driven by the interaction of several factors. In the rapidly changing economic environment, Foreign Direct Investment (FDI) is used as the stimulus for growth in the most of developing countries including India. Globalization has engulfed all the sectors into its fold, out of which the banking sector is a crucial one. FDI in Indian banking sector has a lot of opportunities as well as challenges. This Paper explores the opportunities for FDI in Indian banking sector and highlights its various forms of presence in India. It further investigates the trends in FDI into Indian banking sector and attempts to reckon the impact of presence of foreign banks on Indian domestic banks. The study also throws light on RBI's amendments and recent foreign policy with respect to FDI in India. We are the 4th largest economy in the world. The way we are expanding and impacting the world after liberalization, we need to then improve our lifestyles comparing to other countries. We need to improve infrastructure and many more things. The purpose of the present study is to gain better understanding of the Banking Sector, especially in the developing Indian Economy. This paper attempts to carry out a basic analytical study of the FDI Inflow into the Indian Banking sector with special importance in India. For the purpose of study only the secondary and few reports relating to the FDI have been used. This study shows that the most important role and its influential factor that affect the Indian Economy in different ways.

Key Words: FDI in Banking Sector, Indian Economy, FDI Inflows, FIIs and Banking Sector

I. INTRODUCTION

FOREIGN DIRECT INVESTMENT (FDI) is an important element of economic development process. The growing importance of industrial competitiveness is an increasingly competitive global market place and the potential of the relationship between FDI and technology upgrading. FDI is highly important in developing countries for providing a boost to substantial economic growth. Foreign investment in banking sector has been

further liberalized by raising the limits in private sector banks to 74% under the automatic route including investment by Foreign Institutional Investors (FIIs). The aggregate foreign investment in private banks, from all sources will be a maximum of 74% of paid up capital of the banks. That means, at least 26% of the paid up capital shall be held by the residents except in regard to a wholly owned subsidiary of private bank. Further, the foreign bank is permitted to have either branch or subsidiary but not both.

II. FDI AND BANKING SECTOR - INDIAN SCENARIO

Until early 1990s, the Banking Sector suffered from lack of competition, low capital base, low productivity and high intermediation costs. After the nationalization of large banks in 1969 and 1980, government-owned banks have dominated the banking sector. India is the 7th largest and 2nd most populous country in the world with abundant natural resources and skilled manpower. India is also the fourth largest economy in terms of its purchasing power parity (PPP) and the tenth most industrialized country in the world. Banking Sector in India is currently passing through an exciting and challenging phase. The reform measures have brought about sweeping changes in this vital sector of the country's economy. Portfolio of private sector and government-owned banks posted significant and large value gains. The gains by private sector banks almost double of the Public Sector Banks.

III. REVIEW OF LITERATURE

The literature in the area of FDI in Banking Sector is enormous and the studies vary from simple case studies to cross-country studies to sector-wise (private and public sector banks) comparison studies. Since it is difficult to review all the works carried out in this area (FDI in India), this review is limited to only those studies which are relevant to the objectives of the present study. With this background, review of a few important works is made in the following paragraphs with two important objectives – one, to obtain a clear idea about the theoretical framework, and two, to identify the research gap that exists at present.

Nachiket Mor, R Chandrasekar and Diviya wahi¹ in their paper, **FDI flow into banking sector and Banking Sector Reforms in India** had observed that the Banking Sector Reforms in India are grounded in the belief that competition in the real sectors of the economy will not

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