# Globalization's Effect on the Banking Sector

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## Abstract

Financial services liberalisation is characterised by an increase in the number of international banks operating in a country. This study examines the impact of globalisation on bank profitability and cost efficiency using data from 169 countries between 1998 and 2013. Using both fixed-effects and GMM estimations, as well as accounting for banking-industry and macroeconomic controls, I find that greater globalisation of the banking sector reduces profits and cost inefficiency. This reflects increased competitiveness and informational asymmetries in host markets, as well as assimilation of better technology and management practises by domestic banks. For nations in different phases of economic development and with differing levels of foreign bank engagement, the results are examined. Developing markets and nations with a banking sector dominated by foreign banks stand to gain the most from increased globalisation of the banking industry. The findings suggest that banking regulators should establish strategies to alleviate host market knowledge asymmetries.

***Keywords:*** *Globalisation, banking Sector, Financial, banking Growth.*

## 1. INTRODUCTION

The recent global financial crisis (henceforth GFC) had a devastating effect on the banking industry, resulting in record revenue declines in several nations. As bank performance declines, bank failures and financial crises, as well as their negative impact on the economy, are typically foreshadowed by these events. Academic research, bank management, financial markets, and banking regulators are all interested in the factors that influence bank performance since a well-performing banking sector is better able to withstand negative shocks and help stabilise the financial system. Financial globalisation has advanced substantially during the last two decades. In spite of this, arguments in support of a policy of financial sector openness in the host nation are not widely accepted. The present global financial crisis has drawn much academic and governmental attention to the role played by foreign banks in increasing economic vulnerability in host countries. Low-income countries and emerging economies have seen an increase in financial globalisation. As a nation's whole economy is powered by its banks, reform measures to avert bank distress are necessary to restructure them. The government's strategy to reposition and integrate the Indian banking sector into the global financial system includes reforming the banking sector. When looking at the Indian banking industry's growth over the last several decades, there has been a major shift in both the number of financial institutions, and the ownership structure that governs them.

## 2. LITERATURE REVIEW

**STEVE J. BICKLEY ET.AL (2021)** Because of the present COVID-19 pandemic, we can see the wide variations in coronavirus control and containment measures used across the world, as well as the various degrees of success these efforts have in suppressing coronavirus transmission. Even while past studies have demonstrated that including data on air travel and government policy responses into global disease transmission models has a high predictive value, factors determining the decision to adopt travel and border restriction policies have gotten far less attention. Nonpharmaceutical therapies for international travel-related coronavirus infections are being examined in this study to see how globalisation affects their adoption (NPIs). It is the goal of this study to provide suggestions for improving global planning, readiness, and coordination during future infectious disease outbreaks based on empirical evidence. We studied data on international travel restrictions implemented by 185 countries in response to COVID-19 from January to October 2020. It was determined that travel limitations were linked to globalisation using time-to-event analysis, After taking into consideration the exact time of the viral pandemic in each country as well as other factors, our survival analysis reveals that countries with a more globalised economy are more likely to enact international travel restrictions. People in nations whose government efficiency and globalisation are strong are less likely to place travel limitations, particularly if such limits are enforced by formal integration of trade policy and politics. In a placebo investigation of domestic NPIs, there was no evidence of a correlation between NPIs and PTSD. As a result, we demonstrate that by the time a first policy measure is adopted, globalised countries with strong state capacity are more likely to have a larger number of confirmed cases.

**YUNFENG SHANG ET.AL (2021)** The coronavirus outbreak has brought capitalism's dysfunction to light, revealing that putting profits before of people may have disastrous consequences. Disease outbreaks have a greater impact on LME economies than CME economies, which are protected from the disease's impact by government involvement, according to the data. As a consequence, we may deduce that increasing government involvement can help lessen the impact of disease outbreaks.

**KARTIKEYA GULATI (2020)** Globalization is based on the premise that the whole globe acts as a single entity that makes decisions collectively, with individual states having little or no say in the process at hand. Global trade in goods and services and capital is facilitated by this notion because national economies are made more accessible. A socialist effect of this notion would be an increase in social and cultural integration across national systems. According to this viewpoint, globalisation is a good thing. However, it's worth taking a second look at the issue from another angle. On the other hand, from a corporate viewpoint, globalisation is a push toward a worldwide economic system in order to avoid the responsibilities that come with democratic systems in nations. 'Globalization' Whatever one's point of view, the final result is always the same: transformation.

**S. MAHENDRA DEV ET.AL (2019)** India's economy is in tatters as a result of the Covid-19 outbreak. At a time when the economy was already in decline, Covid-19 struck. As a consequence of the country's long-term lockdown, the global economic recession, and the disruption of demand and supply networks, the economy is expected to undergo a protracted period of decline. Longevity and severity of a health crisis, as well as the duration of the lockdown, will all have a bearing on the economic impact. Before the Covid-19 shock, we outline the condition of the Indian economy, estimate the effect of the shock on different parts of the economy, and review the initiatives taken so far by the federal government and the Reserve Bank of India to ameliorate the economic shock.

## 3. METHODOLOGY

The data used in the present study is derived solely from secondary sources. In addition to books, journals, periodicals, official publications and gazettes that have been published in the past and present. According to several RBI papers published over the years, data on regional population growth of SCBs and NSCBs has been obtained (visited RBI Website) Analysis of secondary data was done with the use of simple statistical procedures such as averages, growth, and percentages.

## 4. DATA ANALYSIS

**The impact of the pandemic on the banking system**

Summarizing, banks continue to play an important role despite their difficult circumstances after the 2008 financial crisis in terms of long-term development. Since the financial crisis of 2009, losses in the banking sector have decreased. Commercial banks must continue to offer liquidity to the general population, and the quantity of foreign debt must be closely monitored. Good examples come from Germany where banks have been providing liquidity to entrepreneurs and firms from the beginning of the financial crisis. During the 2008-2009 financial crisis, they used this method to lend money to companies. In the current crisis, banks are nevertheless more prepared than they were before, and they should help companies, provide aid, and allow rates to be postponed for customers who need it.

As a consequence of the COVID-19 outbreak, several parts of the financial industry are changing, such as how they function, new activities, and processes. In order to ensure that consumers had access to financial resources, they were unable to close all of their sites. Around a quarter of bank branches have been shut down in different countries and territories because of employee safety, staff shortages, and reduced commerce. Many of the remaining 75% are working fewer hours and employing fewer people (KPMG, 2020b). Focusing on a single goal is the only way to get over the various barriers in their path. Business continuity planning should focus on aspects crucial to the company's existence, according to PWC (2020b), such as altering branch hours and employee mix and times, moving in-branch visits to appointments only, and temporarily shutting key branches. The financial sector's future will surely be affected by all of these changes in how they function.


**Figure 1 The impact of the pandemic in the banking sector**

During or after the pandemic, banks with considerable loan exposure, particularly to export-oriented industries and small businesses, may see a large surge in default rates. Another element to consider is the capacity and desire of the borrowers to keep their end of the bargain. As a consequence of the COVID-19 outbreak, many people have experienced financial hardship, which has the potential to impede the smooth operation of the banking system. Banks and financial stability in Indonesia might be adversely affected if these borrowers' performance and capacity fall, for example.

New payment methods have also been aided by the internet and mobile banking applications. There are several advantages to using online payment and banking services. Although uncertainty is high at this moment, conventional or traditional banks are more vulnerable to a sudden decline in loan activity, whereas mega banks are better prepared.

**Measuring bank performance**

Profitability and cost efficiency are the two measures I use to evaluate the performance of banks, as previously indicated. For a commercial bank, return on assets (ROA) is defined as the ratio of net after-tax earnings to total assets. ROA is a measure of a bank's ability to generate profits from its assets. Thus, it reveals how successfully the bank manages its assets in order to generate profits. Using the difference between interest income and interest expenses multiplied by total assets as a measure of net profit margin (NIM) is another method I use to keep tabs on bank profits.

**The Phase of Globalization (Financial Sector Reforms):1991-2018**

India's economic policies and initiatives have been significantly altered as a consequence of GATT, IMF, and World Bank inspections. The Indian government has set up a high-powered committee on the financial system (CFS). In 1991, M. Narasimham served as the committee's chairman. The principal objectives of this committee were to examine the structure, organisation, operations, and procedures of the financial system, particularly the banking sector in India. Financial sector changes were based on proposals presented to the panel. M. Naasimhman chaired the second Committee on Banking Industry Reforms (CBSR), which issued a report in 1998 with further recommendations for financial sector reform in India.

The present structure, organisation, and role of Indian Scheduled Commercial Banks is the result of banking sector deregulation that started in 1991-92. On January 22, 1993, the Reserve Bank of India issued guidelines for the licencing of private sector banks. The amended Guidelines for New Bank Entry into the Private Sector were announced on January 3, 2001. The New Banking Licensing Policy17 forbids the creation of any private sector banks. Everyone was informed except the RRBs. From 1991 to 2018, the following table-1 displays the growth of banks.

**Growth of Commercial Banks -1990 to 2018**

| Years /Area | Rural | Semi-Urban | Urban | Metropolitan | Total | 1 office/ Population | Deposit (Rs.in crore) |
|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (08) |
| 1990 | 34791 | 11324 | 8042 | 5595 | 59752 | 14000 | 173515 |
| 1995 | 33004 | 13341 | 8868 | 7154 | 62367 | 15000 | 386859 |
| 2000 | 32734 | 14407 | 10052 | 8219 | 65412 | 15000 | 813344 |
| 2005 | 30790 | 15325 | 12419 | 11839 | 70353 | 16000 | 1700198 |
| 2010 | 32529 | 21022 | 18288 | 16364 | 88203 | 14000 | 4492826 |
| 2013 | 39439 | 28691 | 21720 | 19961 | 109811 | 12000 | 6750454 |
| Dec-2018* | 49766 | 38867 | 25469 | 27098 | 141227 | -- | 99061495 |
| % of Growth Over 1969 | 43.04 (0.43 times) | 262.74 (2.62 times) | 243.22 (2.43 times) | 384.32 (3.84 times) | 136.35 (1.36 times) | -- | 56991.02 (569.91 times) |

## 5. INDIA'S POLICY IMPLICATIONS

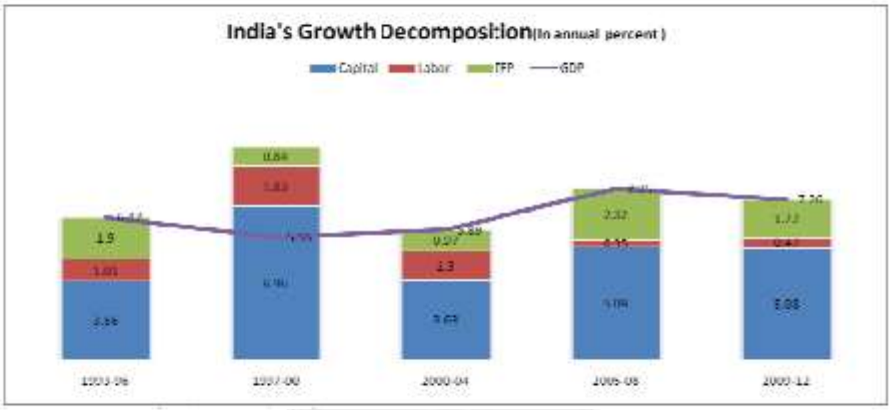
We used policy simulations to look at the impact of TFP on economic growth in this section. Despite being a country with a smaller middle class, India's economy is one of the fastest growing in the world. It is possible to undertake policy experiments based on high- and upper-middle-income nations' growth strategies to show how India's productivity may rise as a result. We may be able to get important policy insights from these simulations that will help India's productivity and, as a result, its economic growth.

You may learn how to run a policy simulation here. TFP growth and economic development were shown to be linked in our study of India's growth decomposition. We also looked at India's current and projected growth rates. The expected TFP was computed in a two-step process. Phase one involves multiplying variable3's coefficient by the mean of the variables across the various income levels. The second step is the summation of the previous step's product.

Since broad-based economic reforms were enacted in India, the country's economic growth rate has greatly risen. Identifying whether or whether India's growth was driven by factor accumulation or TFP is essential for drawing policy lessons for long-term economic development.

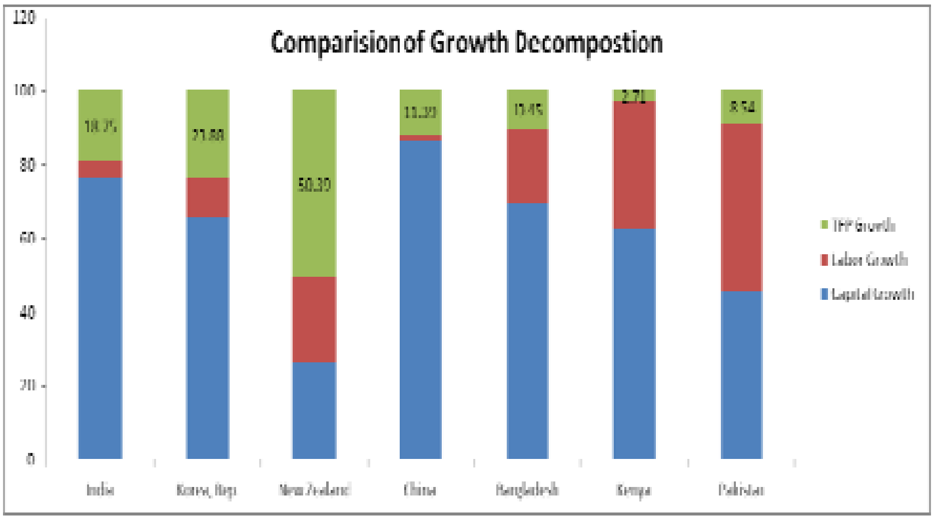
Figure 1 depicts India's growth breakdown. Four-year intervals were used to separate the breakdown process. 1997-2000 and 2000-2004 were periods of slower economic growth, with total factor productivity (TFP) reaching its lowest point among the years shown in the graph. Using the graph, it is evident that economic growth has been greater when TFP has been higher as well.

**Figure 1 India's Growth decomposition**




Figu On re 2, you can see which countries are classified according to their level of income. Kenya and Pakistan fall into the low-income group, whereas New Zealand, China, and Korea are in the upper-middle-income brackets. As seen in the graph, countries with a high level of income have a higher level of TFP compared to countries such as Kenya and Pakistan. Compared to Kenya and Pakistan, India has a TFP contribution of 18 percent, which is more than Kenya but lower than New Zealand. In India, capital and total factor productivity (TFP) are the most important contributors to economic growth, followed by labour. In both Korea and China, this is the case. Economies of low-income countries like Bangladesh, Pakistan, and Kenya, on the other hand, rely more heavily on the contributions of labour.

**Figure 2 Comparison of growth Decomposition**




## 6. CONCLUSION

Economic growth in low-income countries is catching up to that in wealthier countries, which is consistent with the convergence theory. At both the aggregate and low-income levels, TFP plays a large influence in economic growth, with globalisation accounting for 20% of the variation and 60%, respectively. Despite being a low-income nation, India has outperformed certain advanced countries in the policy simulations, demonstrating that we may learn from the development tactics of high-income economies in order to raise India's productivity and put it on a more sustainable growth trajectory. Since SLR and CRR were reduced, commercial banks have seen a significant increase in operational flexibility, as well as a fall in interest rates. For specialised products and services, banks have opened specialist branches. Finally, as a consequence of liberalisation and globalisation, new management techniques, global standards, and greater competitiveness have emerged. In rural and semi-urban areas, the number of commercial banking activities has risen dramatically as a consequence of globalisation and deregulation. Financial inclusion in India must continue to be a priority for the country's banking sector, which has made significant progress over the years.

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