Preface

There was growing dissatisfaction among less developed economies with the way in which regulation of financial markets was working. It was often associated with interest rate cartels, bureaucratic procedures and sometimes, even with corrupt practices. Financial markets were seen as being financially repressed and economic development was thought to be being stifled rather than promoted. Dissatisfied with the control regime, our policy maker finally decided to free the financial market from the clutches of the government so that it can function freely without any sort of intervention. We describe it as non-interventionist approach of financial development, which may be treated as a product of thought provoking seminal work of McKinnon and Shaw. In 1973, McKinnon and Shaw separately highlighted the problems associated with excessive intervention. Their diagnosis was that the mass of controls on the financial system were "repressing" it and causing it to malfunction. The solution they proposed to this "financial repression" was financial liberalisation : the removal of government controls. India, since its financial crisis in 1991, has slowly traveled down the path of economic liberalisation and structural adjustment. Now it is the time to take stock about what the policy of liberalisation promised and what it delivered ?

In the present study attempt has been made to investigate how the different measures of liberalisation helps 'to activate different segments of our financial system? What are the major symptoms we are visualizing in the financial market after the liberalisation ? This study has also attempted to identify the possible measures to be initiated to cancel out the harmful effect of financial liberalisation in India. The whole work is divided into six interrelated chapters; First Chapter will focus on the motivation, issues and objectives of financial liberalisation in consonance with our hypothesis that financial liberalisation leads to economic growth. Second Chapter mainly deals with the theory of liberalisation and the steps taken by our government to develop a market oriented financial system. Implication of the regime shift on money market activities are the subject matter of third chapter. Fourth chapter deals with the pattern of movement of interest rate in our country along with testing the hypothesis that increase in real interest rate helps to mobilize more saving thereby investment. Relevance of financial liberalisation theory in an economy characterized by excess liquidity has been thoroughly analysed in the fifth chapter. Sixth chapter attempts to measure state of development of Indian financial system vis-à-vis other developed and developing countries in absolute as well as in relative terms. Finally we summed up our discussion in seventh chapter.