EFFICIENCY OF FINANCIAL LIBERALISATION: EVIDANCE FROM THE BANKING SECTOR IN SRI LANKA

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Sri Lanka deregulated its financial system in 1977. These reforms aimed at increasing the role of market mechanism. The government in Sri Lanka recognized the inefficiencies of the interventionist policy and began to place greater reliance on the market mechanism. The financial reform included the introduction of new financial institutions, instruments and markets, the upward revision of interest rates so that they better reflected the demand and supply of credit, the reduction of directed credit, the introduction of prudential regulations of bank and finance companies and the strengthening of debt recovery legislation. As the banking sector is the leading sector in most financial system, these reforms were mainly directed toward the banking sector in Sri Lanka too. The objectives of this study are to examine what types of reforms are being implemented in the country and to examine operational and allocative efficiency in banking sector. The data is collected from secondary sources and presented using descriptive methods. The time period covers from 1977 to 2012. An evaluation of the outcome of policy reforms suggest that Sri Lankan banking sector has gained competitive improvements within the financial markets. Implications of studies in this nature cold be substantial and may bring benefits to the development of banking sector in a financial system and to meet with international competitive environment.

Keywords: Allocative efficiency, Financial markets, Operational efficiency,