

The effects of financial liberalization on market structure, financial intermediate and savings mobilization – A case study in Sri Lanka

K.K. Saman Udayakantha

Department of Economics,  
University of Ruhuna, Matara, Sri Lanka.

Financial sector of Sri Lanka has been implementing as a component of liberalized policy package in the late 1977. The government embarked financial sector to address the problem of financial repression, which was evident through heavy rates controls in a highly oligopolistic market structure. Financial sector reforms led to the removal of credit ceiling and interest rates controls and opened the banking system to new competition. This study examines the effect of financial sector reforms on market structure, financial intermediation and saving mobilization in the formal banking system of Sri – Lanka. The results show that financial liberalization has significantly reduced financial system, reduction in monopoly power, increase in savings mobilization and reallocation of credit to the neglected sectors. However, if gain the fruitful advantages by the reforms, government should establish and improve the money and capital markets with incorporated banking system. Meanwhile, government should make an effort to establish macro economic stability and prudential banking sound by creating banking regulation favorably.

Key words: Financial liberalization; Market structure; Savings mobilization; Central banking; Money and capital markets