

THE ROLE OF FOREIGN BANKS IN DEVELOPING ECONOMY

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ABSTRACT

The banking sector plays an important role in the development of the country, and for this reason the country's financial advisers place high priority on the growth of the banking sector. An effective banking system provides guidance to basic policies on micro and macro level stability and instability. There is a huge range of literature that confirms that the banking system is an important indicator of economic growth. Even some early literature found an active relationship between financial development and economic growth. Some recent research has also found that financial development increases economic growth. In these context, the participation of foreign banks also has increased steadily in developing countries since the mid-1990s. The most of the countries in the world have seen an expansion of the adoption of reform, economic transformation and market mechanisms trend towards liberalization of trade in financial services as a result of the growth of the global trend of financial services. Some researchers found that the entry of foreign banks has different impact in different economies and it is hinged upon the level of economic development. Therefore, this study aimed to understand the extent of the importance of the presence of foreign banks in developing countries using descriptive method of analysis and also this study forms this tendency and surveys current literature to explore the drivers and consequences of this phenomenon, paying special consideration to the changes observed across countries in the degree of contribution of foreign banks and the impact of this process. This study concluded that developing countries are striving to attract foreign investments to the banking sector to improve and modernize the banking system and make its performance more effective to be able to play an active role in redistribution of capital flows to the most productive economic sectors.

Keywords: Economic Growth, Foreign Banks, Market Mechanisms, Performance