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RESERVE BANK OF INDIA

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**RBI Working Paper No. 07/2022: Concentration, Competition and Soundness
of the Banking System in India**

Today the Reserve Bank of India placed on its website a Working Paper titled "[Concentration, Competition and Soundness of the Banking System in India](#)" under the Reserve Bank of India Working Paper Series*. The Paper is authored by Pradip Bhuyan.

This paper examines certain important aspects of market concentration, competition and soundness of banks in India during the period 1994-95 to 2019-20. The paper finds that the banking system in India was not characterised by a high degree of market concentration during the period under study. The application of the Martinez-Miera and Repullo (2010) model reveals an inverse U-shaped relationship between the market power of a bank and its soundness. A non-linear relationship was found between the market share of a bank and its soundness during the period underlining an optimal threshold level of market share for a given bank. The paper upholds both the competition-stability as well as competition-fragility views for banks in India depending upon how the given bank is placed with respect to the estimated threshold. Based on this threshold, the paper provides evidence in support of the recent attempts at consolidation among public sector banks and upholds these attempts as prudent.

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(Yogesh Dayal)
Chief General Manager

* The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.