# A Study of indian Money Market

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## Abstract

*A well regulated financial sector is essential in globalize economy. Financial innovation has contributed in the economic development. A financial institution is an institution that provides financial services for its clients or members. Probably the most important financial service provided by financial institutions is acting as financial intermediaries. Most financial institutions are highly regulated by government. The definition of money for money market purposes is not confined to bank notes but includes a range of assets that can be turned into cash at short notice, such as short-term government securities, bills of exchange, and bankers' acceptances This paper analyses the real effects of financial markets subsequent to financial liberalization in an economy with risk averse savers and learning by lending. Transition from full financial repression to full financial liberalization might initially slow down the growth process or even induce a recession, whenever the initial level of valuable investments known by the financial intuitions is sufficiently scanty. However, lending activity leads to accumulation of information (learning by lending) regarding valuable investments. The purpose of this paper is to advocate and encourage financial markets in the overall development of the economy.*

**Keywords:** *financial markets and money market*

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### Introduction

The financial sector is a section of the economy made up of firms and institutions that provide financial services to commercial and retail customers. This sector comprises a broad range of industries including banks, investment companies, insurance companies, and real estate firms.

Financial Market refers to the system consisting of financial institutions, financial instruments, regulatory bodies, and organisations. It facilitates the flow of debt and equity capital. Banks, Development Financial Institutions (NABARD, SIDBI, IDBI, etc.), and Non- Banking Financial Institutions form Financial Institutions.

### Money Market

According to the RBI, "The money market is the centre for dealing mainly of short character, in monetary assets; it meets the short term requirements of borrowers and provides liquidity or cash to the lenders.

It is a place where short term surplus investible funds at the disposal of financial and other institutions and individuals are bid by borrowers, again comprising institutions and individuals and also by the government."

### Functions of Money Market

- To maintain the balance between the demand and supply for money when it comes to short-term money-related transactions(monetary equilibrium)
- To promote economic growth. The money market can do this by making funds available to various units in the economy such as agriculture, small scale industries, etc.
- To provide help to Trade and Industry. The money market provides adequate finance to trade and industry. Similarly, it also provides the facility of discounting bills of exchange for trade and industry.
- To help in implementing Monetary Policy. It provides a mechanism for the effective implementation of the monetary policy.
- To help in Capital Formation. The money market makes available investment avenues for the short term period. It helps in generating savings and investments in the economy.

### Features of Money Market

The money market provides non-inflationary sources of finance to the government. It is possible by issuing treasury bills to raise short loans. However, this does not lead to increases in prices.

Money Market consists of all the organizations and institutions which deal or facilitate dealings in short term debt instruments. These institutions include RBI, commercial banks, cooperative banks, non-banking financial companies like LIC, GIG, UTI, and special institutions like Discount and Finance House of India (DFHI). The important money market instruments or securities (financial assets) are as follows.

## ROLE OF MONEY MARKET IN ECONOMY

Money markets play a key role in banks' liquidity management and the transmission of monetary policy. In normal times, money markets are among the most liquid in the financial sector. By providing the appropriate instruments and partners for liquidity trading, the money market allows the refinancing of short and medium-term positions and facilitates the mitigation of your business' liquidity risk. The banking system and the money market represent the exclusive setting monetary policy operates in. A developed, active and efficient interbank market enhances the efficiency of central bank's monetary policy, transmitting its impulses into the economy best. Thus, the development of the money market smoothes the progress of financial intermediation and boosts lending to economy, hence improving the country's economic and social welfare. Therefore, the development of the money market is in all stakeholders' interests: the banking system elf, the Central Bank and the economy on the whole.

## GROWTH OF MONEY MARKET IN INDIA

While the need for long term financing is met by the capital or financial markets, money market is a mechanism which deals with lending and borrowing of short term funds. Post reforms period in India has witnessed tremendous growth of the Indian money markets. Banks and other financial institutions have been able to meet the high expectations of short term funding of important sectors like the industry, services and agriculture. Functioning under the regulation and control of the Reserve Bank of India (RBI), the Indian money markets have also exhibited the required maturity and resilience over the past about two decades. Decision of the government to allow the private sector banks to operate has provided much needed healthy competition in the money markets, resulting in fair amount of improvement in their functioning. The Indian financial markets remained orderly, notwithstanding the impact of global developments and tight liquidity conditions in domestic markets. Call rate firmed up in step with policy rates and tight liquidity conditions. It mostly remained above the upper bound of the LAF corridor during the third quarter of 2010-11. Both commercial paper (CP) and certificate of deposit (CD) markets remained active as alternative sources of finance. The yield curve for Government Securities (GSec) shifted, reflecting expectation of policy rate changes in an inflationary environment. The Indian Rupee appreciated moderately against the US dollar and stock prices rose on the back of strong foreign portfolio inflows.

## Different Money Market Instruments in India

### 1. Treasury Bills

Treasury Bills are one of the most popular money market instruments. They have varying short-term maturities. The Government of India issues it at a discount for 14 days to 364 days.These instruments are issued at a discount and repaid at par at the time of maturity. Also, a company, firm, or person can purchase TB's. And are issued in lots of Rs. 25,000 for 14 days & 91 days and Rs. 1,00,000 for 364 days.

### 2. Commercial Bills

Commercial bills, also a money market instrument, works more like the bill of exchange. Businesses issue them to meet their short-term money requirements.These instruments provide much better liquidity. As the same can be transferred from one person to another in case of immediate cash requirements.

### 3. Certificate of Deposit

Certificate of Deposit (CD's) is a negotiable term deposit accepted by commercial banks. It is usually issued through a promissory note.CD's can be issued to individuals, corporations, trusts, etc. Also, the CD's can be issued by scheduled commercial banks at a discount. And the duration of these varies between 3 months to 1 year. The same, when issued by a financial institution, is issued for a minimum of 1 year and a maximum of 3 years.

### 4. Commercial Paper

Corporates issue CP's to meet their short-term working capital requirements. Hence serves as an alternative to borrowing from a bank. Also, the period of commercial paper ranges from 15 days to 1 year.The Reserve Bank of India lays down the policies related to the issue of CP's. As a result, a company requires RBI's prior approval to issue a CP in the market. Also, CP has to be issued at a discount to face value. And the market decides the discount rate.

Denomination and the size of CP:

Minimum size – Rs. 25 lakhs

Maximum size – 100% of the issuer's working capital

### 5. Call Money

It is a segment of the market where scheduled commercial banks lend or borrow on short notice (say a period of 14 days). In order to manage day-to-day cash flows.The interest rates in the market are market-driven and hence highly sensitive to demand and supply. Also, the interest rates have been known to fluctuate by a large % at certain times.

## Factors to determine Interest Rates of Money Market Instruments

Currently, the interest rate is dependent on the market forces of demand for; and supply of short term money.Fiscal deficit, for example, occurs when the government expenditure is more than government revenue. To fund this deficit, the government requires money which in turn leads to borrowing by the government and hence influencing the interest rates. In other words, the higher the fiscal deficit more will be the money required by the government. Hence, it will lead to an increase in interest rates.

### Recent Trends in Financial Market

The Indian financial markets have witnessed many changes in recent years and are faced with everchanging trends that ultimately shape the financial markets. Some of the recent trends in the Indian financial markets are highlighted below.

**Growth of Digital Finance**

There has been an exponential increase in digital finance in India over recent years. This is further backed by various measures under the 'Digital India' vision of the government. This includes digital payment methods such as UPI, mobile banking, and e-wallets. This growth is also the result of the increase in internet and smartphone penetration which has taken digital finance to even the rural parts of the country.

**Focus on Financial Inclusion**

Financial inclusion has been the focus of the Indian government and regulators for many years now. Many measures for financial inclusion include increasing access to financial services for under-served populations such as farmers and small businesses.

**Rise of Mutual Funds**

Mutual funds have become increasingly popular and a staple among retail investors as a way to invest in the stock market. The introduction of direct plans has also made them more accessible and cost-effective for the average investor.

**Increased Focus on ESG Investing**

Social consciousness has been increasing greatly among the public at large over the years. This has therefore resulted in an increase in Environmental, Social, and Governance (ESG) investing which is gaining prominence as investors increasingly seek to align their investments with their values.

**Emergence of Robo-Advisors**

Financial markets have also seen a rise in Robo-advisors. These are algorithms that provide investment advice based on AI. Such platforms are becoming quite popular by offering low-cost and personalized investment solutions to businesses and investors.These trends are shaping the future of the Indian financial market and are likely to continue to drive growth and innovation in the years to come.

## Conclusion

The money market provides the government with non-inflationary sources of funding. Short-term loans can be raised by issuing treasury bills. However, this does not result in price increases.

Financial markets provide investors with an equal opportunity to invest in different asset classes. This mobilising of investments is crucial for the movement of funds in the economy and its ultimate growth and progress. Financial markets are also instruments in job creation in the economy and can also prove to be a good opportunity for alternate career options.

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