

Study of India's Short Term Security Market with reference to its Contribution in India's Economic Growth

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ABSTRACT

A good controlled and policy oriented financial sector is essential for the globalization of the economy. Financial innovation has contributed to economic development. A financial institution is an institution which offers financial services to the customers or participants. The main financial services provided by financial institutions are likely to play the role of financial intermediary. Most financial institutions are tightly regulated by the central bank which is run by government. The definition of money to understand the money market is not limited to bank currency or notes, it also involves a number of assets that can be converted into cash in the short term, for example Short-term government bonds, commercial letters and bank acceptances. The real impact of financial markets after financial liberalization in the economy, impact on savings and investment and study role of short-term money market in economic growth etc are major objectives of this paper. The change from full financial suppression to full financial liberalization might slow down the growth process or even cause a recession, provided that the initial level of valuable investments known to the financial outlook is quite low. However, a loan leads to the augmentation of data (training through a loan) about valuable investments. The objective of this study is to support and promote financial markets for the total growth and development of the economy.

1. Introduction

Financial Liberalisation is often seen as a significant potential benefit. Access to money markets empowers investors to achieve higher risk-adjusted returns. It also allows countries to apply for loans to regulate consumption in the face of adverse shocks. The growth potential and increased well-being, which from such a distribution of international risks as a result, can be significant (Obstfeld, 1994). It is also argued that free flow of capital across borders can lead countries to pursue more disciplined macroeconomic policies, which will lead to greater stability by increasing the benefits of good policies and sanctions for bad policies. An increasingly common argument in favor of financial openness is that by reducing the "excessive" monopolistic costs and benefits associated with this, the depth and breadth of national financial markets, which leads to an increase in the process of financial intermediation, increase or securitization, thereby reducing investment costs and resource allocation will be improved.

Financial markets have been organized in India for over a century. Today there are various urgent markets for stocks, debts, commodities and currencies. There are 25 markets across the country, the largest of which are vector exchanges from Mumbai and the National Stock Exchange.

The Indian financial market helps promote savings in the economy and create an effective channel for transmitting various financial policies. The Indian financial sector is well developed, competitive, efficient and integrated to cope with all the shocks. There are various types of financial products in the Indian financial market, the prices of which are determined by many buyers and sellers in the market. Another determining factor for the prices of financial products is the market forces of supply and demand.

The Indian money market is a money system consisting of short-term loans and stock loans. The Indian money market has shown exponential growth right after the globalization initiative in 1992. It was noted that financial institutions use money market instruments to finance short-term money needs in various sectors such as agriculture, finance, and the economy. The performance of the Indian money market has been exceptional for 20 years.

Country Central Bank: Reserve Bank of India (RBI) has always played a leading role in regulating and controlling the Indian money market. RBI intervention is diverse: by limiting crises, lowering the cash reserve ratio (CRR), or by attracting more money to the economy.

2. The role of the money market in the economy

Money markets play a key role in managing bank liquidity and informing monetary policy. Money markets are usually among the most liquid in the financial sector. By providing suitable instruments and partners for trading in liquidity, you can refinance your positions in the money market in the short and medium term, and it is also easier to reduce the liquidity risk of your company. The banking system and the money market are the exclusive context in which monetary policy operates. A developed, active and efficient interbank market increases the effectiveness of the monetary policy of the central bank and better conveys its impulses to the economy. As a result, the development of the money market contributes to the progress of financial intermediation and increases lending to the economy, thereby improving the economic and social well-being of the country. Therefore, the development of the money market is of interest to all participants: the elves of the banking system, the central bank and the economy as a whole.

2.1 Information on Production and Disposal Capital

Many researchers have studied and emphasized the importance of information generation in financial markets. They develop models in which financial intermediaries present themselves to produce information and sell this information to investors. Financial intermediaries can improve the preliminary assessment of investment opportunities that positively affect the allocation of resources by saving information costs. According to Schumpeter (1912), financial systems can promote growth by stimulating technological innovation, identifying and financing entrepreneurs who have the best opportunity to successfully implement innovative processes.

2.2 Share Risks

One of the most important functions of the financial system is to achieve optimal risk distribution. Many studies directly analyze the interaction between the function of financial systems in risk sharing and economic growth. These theoretical analyzes illustrate the conditions in which financial development, which contributes to the sharing of risks, contributes to economic growth and welfare. In these studies, however, authors often focus on markets or intermediaries, or on a comparison between the two extreme cases in which any financing of markets or intermediaries takes place. In addition, research focuses on the role of financial systems against diversified risks. The influence on financial development and financial structure on economic growth can be very different if markets cannot diversify all the risks associated with the economic context. The importance of risk sharing for economic growth is based on the fact that people usually do not like risks. High-performing projects are generally more risky than low-performing ones. As a result, financial markets that contribute to risk diversification tend to shift the portfolio toward higher expected return projects such as Greenwood and Jovanovic (1990), Saint-Paul (1992), Devereaux and Smith (1994), and Obstfeld (1994), König and Levine (1993a) show that risk diversification can cross-stimulate the activity of risk of harmful funds at risk is quite innovative.

2.3 Liquidity

Money market funds offer valuable liquidity through investments in commercial papers, municipal securities and repos: money market funds have significant market participants in commercial papers, municipal bonds and swap (or ready-to-run) agreements. Money market funds hold nearly 40% of all commercial papers in circulation, which is currently the main source of short-term financing for companies that issue commercial papers as a cost-effective alternative to short-term bank loans. The repo market is an important means by which the Federal Reserve pursues a monetary policy and daily provides liquidity to global financial institutions.

The liquidity level in the banking system is critical because it is a critical factor in inflation and bank lending in the economy. Market forces usually indicate a need for credit or cash, and the money market satisfies these requirements. RBI facilitates these adjustments using the available instruments of monetary policy. The high demand for funds overnight indicates that banks need short-term funds and that interest rates will rise in the event of a liquidity crisis.

2.4 Diversification

Money market funds offer an economically attractive alternative to bank deposits for private and institutional investors. Money market funds offer greater investment diversification, are less prone to bank failures, and provide investors with more information about the nature of their investments and underlying assets than traditional bank deposits. For a broader financial system, money market funds reduce pressure on the FDIC, reduce systemic risk, and provide substantial liquidity in capital markets through fund investments in commercial, municipal, and commercial funds & Sales Contracts.

2.5 Saving and Investing

The money market has encouraged investors to save, which is reflected in the encouragement of investment in the economy. The savings and investments, as well as the balance between supply and demand of credit funds contribute to the allocation of resources.

2.6 Check Economic Price

Inflation is one of the serious economic problems that every developing economy faces from time to time. Cyclical fluctuations differently affect the price level at a certain point in time, depending on supply and demand. Money market rates play an important role in controlling the price line. Higher interest rates on money markets reduce the liquidity of the economy and lead to a decrease in the economic activity of the system. However, the rise in interest rates has reduced the liquidity in the market and reduces the cost of capital significantly, which in turn the investment increases. This feature also helps RBI control the entire money supply in the economy.

2.7 Help in Correcting Inequalities in the Economy

Meanwhile, fiscal policy has a longer term and is aimed at correcting imbalances in the economy. Balanced financial and credit policies to achieve long-term government goals. You not only retain full control over the creation of a bank loan, but also closely monitor it. Fiscal policy instruments that take into account the cash rate, repayment rate and interest rate of the bank are used by the country's central bank to provide the necessary guidelines for monetary policy.

2.8 Loan Flow Adjustments and Loan Prices

Money markets are one of the most important mechanisms in a developing financial system. Instead of ensuring that the money market in India regulates credit flow and lending rates, this tool has become one of the most important policy tools for the government and RBI to control fiscal policy and money supply. creation of credit and control, inflation rate and general economic policy of the state. Thus, the main and main function of the money market mechanism is regulatory. In determining the total amount of credit plan for six months of the credit policy is also aimed at it, to guide credit flows in accordance with the government priorities in accordance with the needs of the economy. Credit policy as a tool is important in order to guarantee the availability of credit in sufficient quantities. It also meets the loan needs of various industries. RBI supports the government in implementing its loan plan guidelines during its

legal control of the country's banking system.

3. Transfer of monetary policy

The money market is the first and most important link in transferring monetary policy impulses to the real economy. The political interventions of the central bank and their market operations influence family and business decisions through a monetary policy transfer mechanism. The key to this mechanism is the common claim of the central banking sector, commonly known as the monetary base or currency with high potential in the economy. Among the components of the monetary base, bank reserves are the most important component, that is, loans that banks have in the form of deposits with the central bank. The need of banks for these reserves depends on overall economic activity. This is determined by several factors:

- (i) Banks hold these reserves depending on the volume of deposits in many countries, the so-called minimum reserves, which affect their ability to provide loans and make deposits, thereby limiting the amount of operations that the bank must manage.
- (ii) The bank's ability to provide loans (bank assets) depends on its ability to mobilize deposits (bank liabilities) in accordance with the bank's total assets and liabilities and should develop / contract together; East.
- (iii) The need for banks to keep balances with the central bank to process loans in the banking system, as these transactions are settled in bank accounts with the central bank. As a result, the daily routine of the modern economy and its financial system leads to a demand for central bank reserves, which is increasing in parallel with the expansion of overall economic activity (Friedman, 2000b).

4. Money Market Growth In India

Although the need for long-term financing is met by financial or financial markets, the money market is a mechanism that deals with short-term loans and loan funding. Since the reform in India, India's money markets have grown significantly. Banks and other financial institutions were able to live up to high expectations for short-term financing from key sectors such as industry, services and agriculture. In the Indian financial markets, which under the regulation and control of the Reserve Bank in Surgery of India (RBI) have demonstrated the maturity and resilience that have been needed over the past two decades. The government's decision on the inquiry into the banks to the private sector to act has scheduled a necessary and healthy competition in the financial markets, which led to an improvement in the activity fair.

Indian financial markets remained in order despite the impact of global events and harsh liquidity conditions on domestic markets. The call rate was strengthened by a key interest rate and harsh liquidity conditions. Most of the time he remained above the ceiling LAF corridor in the third quarter of 2015-2016. A business of paper markets (CP) and certificate of deposit (CD) will still remain active as alternative sources of financing. The government bond yield curve (G-Sec) has changed, reflecting expectations for changes in official interest

rates in the face of inflation. Indian rupee rose moderately against the US dollar, and stock prices rose due to strong returns from the foreign portfolio. Prices in the real estate market as a whole continued to rise in the second quarter of 2015-2016.

5. Inter Bank Market

The money market is an interbank market in which banks lend and lend to each other to meet the short-term needs of the economy in loans and deposits. The short term is usually up to one year. Money market transactions help banks close the gap with them. If a particular bank needs money for several days, you can take a loan from another bank by paying the indicated interest rate. The creditor bank also earns because it can earn interest on inactive funds. In other words, the money market provides market participants with the opportunity to find a balance between excess funds with lenders and the credit needs of borrowers. An important function of the money market is to focus RBI interventions on the impact on liquidity in the financial system and on the implementation of other monetary policy measures.

6. Connecting To Currency Market

In addition to loans from banks and financial institutions, several private sector companies provide people with fixed-term deposits for a shorter period of time and, thus, selectively become part of the money market mechanism. The maturity of instruments issued by the money market as a whole varies from one day to one year. The money market is also closely linked to the foreign exchange market through closed stock arbitration, where the term premium serves as a bridge between domestic and foreign interest rates.

7. Determination of Suitable Interests for Deposit

Determining the appropriate interest rate on deposits or loans from banks or other financial institutions is a complex mechanism in itself. Before determining the optimal rates, you need to solve several problems. Although the term structure of interest rates is a very important factor in determining the difference between the existing national and international interest rates and, as it seems to be the important factor. In addition, some loan instruments have the same term, but different risk factors.

8. Conclusion

Thus, the money market is a very important constituent of the financial system as a central element of all the monetary operations related to short term finances that the central bank carry out to achieve the goals of monetary policy. This is a short-term stock market that runs from one night to one year and includes financial instruments that are considered substitutes for neighboring money. The money market performs three main functions. Firstly, it offers a balanced system of demand and short-term financing. Secondly, it allows borrowers and lenders of short-term funds to fulfill mutual requirements for borrowings and investments at prices that balance an efficient market. Thirdly, the central bank can intervene to influence both the volume and the cost of liquidity in the financial system, and so it transfer the impulses of monetary policy to the real economy. The purpose of central

bank cash management is to bring money market rates according to strategic interest rates. Since excessive instability in the money market can provide puzzling signals for the position of monetary policy, it is significant to ensure orderly

market behavior in terms of monetary and financial stability. Therefore, the effective functioning of the money market is important for the effectiveness of monetary policy.

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