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ROLE OF GROWTH IN MONEY MARKET WITH CONTEXT TO INDIAN ECONOMY

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ABSTRACT

A well regulated financial sectors is necessary in globalize economy. Financial modernization has contributed in the economic progress. A Financial Institution is an institution that provides financial services for its patrons and members. Perhaps the most significant a financial service provided by financial institutions is performing as financial intermediaries. Most financial institutions are highly controlled by government. The definition of money for money market purposes is not limited 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 banker's acceptances. This paper analyses the real possessions of financial markets consequent to financial liberalization in an economy with risk reluctant savers and learning by lending. Transition from complete financial repression to complete financial liberalization might initially slow down the growth practice or even persuade a recession, whenever the initial level of expensive investments known by the financial institutions is sufficiently inadequate. However, lending activity leads to gathering of information regarding valuable investments. The purpose of this paper is to encourage financial markets in the overall development of the economy.

KEYWORDS

money market, financial modernization, Indian economy, economic progress, financial institution.

INTRODUCTION

Financial directness is often regarded as providing important prospective remuneration. Access to money markets expands investors' opportunities for achieving higher risk – adjusted rates of return. It also allows the countries to make use of even consumption in the face of the potential expansion and welfare gains resulting from such international hazard sharing can be large. It has also been argued that by increasing the rewards of good policy and the penalty for bad policies, free flow of capital across borders may stimulate countries to follow more closely controlled macroeconomic policies that convert into greater macroeconomic stability. An increasingly common dispute in favor of financial directness is that it may enhance the depth and breadth of domestic financial markets and lead to an enlarge in financial intermediation method by lowering costs and "extreme" profits associated with monopolistic markets, thereby lowering the cost of investment and improves resource allocation. Organized financial markets have existed in India for more than a century. Today, markets of varying development exist in equity, debt, commodities and foreign exchange. There are 25 stock markets all over the country, the most vital of which, are the Bombay Stock exchange and the National Stock Exchange. The rupee has been adaptable on the current account ever since 1992. India financial market helps in promotes the savings of the economy-help to implement an effective channel to transmit various financial policies. The Indian financial sector is competitive, efficient and integrated to all stocks. In the Indian financial market there are varieties of financial products whose price are determined by the abundant buyers and sellers in the market. The additional determinant factor of the prices of the financial goods is the market forces of demand and supply.

The Reserve Bank of India (RBI) has always been in performance of the major role in regulating and calculating the Indian money markets. The involvement of RBI is varied curbing crisis situations by reducing the cash reserve ratio (CRR).

ROLE OF MONEY MARKET IN ECONOMY

Money market plays a key function in banks' liquidity executive and the conduction of monetary policy. By providing the appropriate instruments and partners for liquidity trading, the money market allows the refinancing the short and medium term position and facilitates the improvement of your business' liquidity hazard. The banking system and the money market represented the exclusive setting monetary policy. A developed, active and efficient bank market enhances the efficiency of central bank's monetary policy; transmit its impulse into the economy. The expansion of the money market smooths the development of financial intermediate and boost lend to economy, hence improving the country's economic and social benefit. Therefore, the expansion of the money market is in all employee interests: the banking system itself, the Central Bank and the economy on the whole.

PRODUCING INFORMATION AND ALLOCATING CAPITAL

Financial systems can advance growth by spurring technological innovation by identify and funding entrepreneurs with the best chance of successfully implement creative procedures. For sustained increase at the frontier of technology, acquiring information and strengthening incentive for obtain information to improve resource allocation become key issues.

RISK SHARING

The functions of a financial system are to achieve an optimal allocation of risk. There are many study that directly analyzing the interaction of the risk sharing role of financial systems and economic growth. These theoretical analyses elucidate the conditions under which financial development that facilitates risk sharing promotes economic growth and welfare. In these studies, however, authors focus on either markets or mediators, or a comparison of the two excessive cases where every financing is conduct by either markets or intermediaries. The intermediate case in which markets and institutions Co-exist is not often analyzed in the context of growth models because the addition of markets can destroy the risk-sharing opportunity provide by mediators. In addition, studies focus on the role of financial systems that face diversified risks.

LIQUIDITY

Money market funds provide expensive liquidity by investing in commercial paper, public securities and repurchase agreements: Money market funds are major participants in the commercial paper, public securities and repurchase agreement (or REPO) markets. Money market funds hold approximately 40% of all outstanding commercial paper, which is now the prime source for short-term funding for corporations, who issue commercial paper as a lower cost alternative to short-term bank loans. The REPO market is a central means by which the Federal Reserve conducts monetary policy and provide daily liquidity to global financial institutions.

ENCOURAGEMENTS TO SAVING AND INVESTMENT

Money market has optimistic investors to save which results in support to investment in the economy. The saving and investment equilibrium of demand and supply of a loan able fund helps in the allocation of resources.

GROWTH OF MONEY MARKET IN INDIA

The long term financing is met by the capital or financial markets, money market are a mechanism which deals with lending and borrowing of short term funds. Post reform period in India has witnessed incredible growth of the Indian money markets. Banks and other financial institutions have been able to meet the high expectations of short term funding of imperative sectors like the industry, services and agriculture. Decision of the government to allow the private sector banks to operate has provided much needed healthy rivalry in the money markets, resulting in light amount of enhancement in their functioning.

INTER BANK MARKET

Money market denote inter-bank market where the banks borrow and lend among themselves to jointly the short term credit and deposit needs of the economy. Short term usually covers the time period up to one year. The money market operations help the banks rush over the temporary mismatch of funds with them. In case a particular bank needs funds for a few days, it can borrow from another bank by paying the resolute interest rate. The lending bank also gains, as it is able to earn interest on the funds lying inactive with it. In other words, money market provides avenues to the players in the market to hit equilibrium between the surplus funds with the lenders and the requirement of funds for the borrowers. An important function of the money market is to provide a focal point for interventions of the RBI to influence the liquidity in the financial system and apply other monetary policy measures.

RBI INTERVENTION

In the economic situation and available market trends, the RBI intervenes in the money market through a mass of interventions. In case of liquidity crisis, the RBI has the option of either sinking the Cash Reserve Ratio (CRR) or pumping in more money supply into the system.

LINK WITH FOREIGN EXCHANGE MARKET

The lending by the banks and the financial institutions, various companies in the corporate sector also provides fixed deposits to the public for shorter period and to that point it become part of the money market method selectively. The maturity of the instruments issues by the short term (Money market) as a whole, range from a day to one year. The money market is also closely associated with the Foreign Exchange Market, through the process of cover interest arbitrage in which the advance premium acts as a bridge between the domestic and foreign interest rates.

DETERMINATION OF APPROPRIATE INTEREST FOR DEPOSITS

The purpose of appropriate interest for deposits or loans by the banks or the other financial institutions is a difficult method in itself. There are several issues that require to be set on before the optimum rates are determined. The term structure of the interest rate is a very main determinant, the difference between the obtainable domestic and international interest rates also appear as an important factor. Further, there are several credit instruments which involve related maturity but diversely different risk factors. Such distortions are accessible only in developing and assorted economies like the Indian economy and need additional care while handling the issues at the policy levels.

CONCLUSION

The money market is a chief component of the financial system as it is the pivot of monetary operations conducted by the central bank in its recreation of monetary policy objectives. It is a market for short-term funds with development ranging from suddenly to one year and includes financial instruments that are deeming to be close substitutes of money. The money market performs three wide functions. First, it provides an equilibrium system for demand and supply of short-term funds. Second, the borrowers and lenders of short-term funds to complete their borrowing and investment requirements at competent market clearing price. Three, it provides an avenue for central bank involvement in influencing both the quantum and the cost of liquidity in the financial system, in that way transmitting monetary policy impulses to the real economy. The purpose of monetary management by the central bank is to align money market rates with the key policy rate. As too much money market instability could deliver confusing signals about the stance of monetary policy, it is dangerous to ensure orderly market behavior, from the point of view of both monetary and financial immovability. Thus, proficient functioning of the money market is important for the efficacy of monetary policy.

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