A STUDY PROJECT ON

INDIAN MONEY MARKET

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ABSTRACT:

In India the money market plays a vital role in the progress of economy. But it is not well developed when compared to American and London money markets. In this market short-term funds are borrowed and lent among participants permitted by RBI. Money Market ensures that institutions which have surplus funds earn certain returns on the surplus. Otherwise these funds will be idle with the institutions. Similarly, the money market ensures funds for the needy at reasonable interest. This way liquidity position is assured by money market operations.

India's time-tested institutions offer foreign investors a transparent environment that guarantees the security of their long-term investments. These include a free and vibrant press, a judiciary which can and does overrule the government, a sophisticated legal and accounting system and a user-friendly intellectual infrastructure. India's dynamic and highly competitive private sector has long been the backbone of its economic activity. It accounts for over 75% of its Gross Domestic Product and offers considerable scope for joint ventures and collaborations.

Today, India is one of the most exciting emerging money markets in the world. Skilled managerial and technical manpower that match the best available in the world and a middle class whose size exceeds the population of the USA or the European Union, provide India with a distinct cutting edge in global competition.

The average turnover of the money market in India is over **Rs. 40,000 crores daily**. This is more than 3 percent of the total money supply in the Indian economy and 6 percent of the total funds that commercial banks have let out to the system. This implies that **2 percent of the annual GDP of India** gets traded in the money market in just one day. Even though the money market is many times larger than the capital market, it is not even fraction of the daily trading in developed markets.

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Chapter 1

Introduction: -

By convention the term 'Money market' refers to the market for short term requirement and deployment of funds. Money market is the instrument which have less than one year as a maturity period. The most active part of money market is the overnight call money and term money between the Banks, Financial Institutions, as well as Call Money market transaction. Call money or Repo are the two short term money market products.

The below mentions instruments are the money market instruments:

The financial markets where instruments are highly liquidating and are of shot maturity period which are traded in the market is called as money market. It is a generic definition. The player who indulge or who trade for short term for several days to less than a year. It is generally use for borrowing and lending for a short period. Due to high liquidate nature of security and short maturities, money market is placing to are recognized as a safe place to lock in money i.e. to invest in money market.

The participants in financial market are of thin line, differentiating between capital market and money market.

Capital market refers to stock market where the stock is being traded in market and bond markets where the bonds are being issued and traded. This is the sharp contrast to money market which provide the short-term debt financing and investment. In money market, there is borrowing and lending for periods of a year or less. There are seven type of money market instruments: -

1) Certificate of deposit (CD)
2) commercial paper (C.P)
3) Treasury Bills
4) Inter Bank Participation certificates
5) Bill Rediscounting
6) Inter Bank Term Money

Meaning and Definition: -

Money market refers to the market where money and highly liquid marketable securities are bought and sold having a maturity period of one or less than a year.

The market constitutes a very important segment of the Indian financial system.

The highly liquid marketable Securities are also called as 'money market instruments' like treasury bills, government securities, commercial paper, certificate of deposit, call money and repurchase agreement etc.

The players in the money market are Reserve Bank of India (RBI), Discount and Finance House of India (DFHI), banks, financial institutions, mutual funds, government, big corporate houses.

Definition of money market: -

According to the Reserve Bank of India, "money market is the center for dealing, mainly of short-term character, in money assets; it meets the short-term requirements of borrowings and provides liquidity or cash to the lenders. It is the place where short term surplus investible funds at the disposal of financial and other institutions and individuals are bid by borrowers' agents comprising institutions and individuals and the government itself."

According to the Geoffrey, "money market is the collective name given to the various firms and institutions that deal in the various grades of the near money.

Objectives of money market: -

The following are the important objectives of a money market:

To provide a parking place to employ short-term surplus funds.

To provide room for overcoming short-term deficits.

To enable the Central Bank to influence and regulate liquidity in the economy through its intervention in this market.

To provide a reasonable access to users of Short-term funds to meet their requirements quickly, adequately and at reasonable costs.

History of Indian Money Market: -

Till 1935, when the RBI was set up the Indian money market remained highly disintegrated, unorganized, narrow, shallow and therefore, very backward. The planned economic development that commenced in the year 1951 market an important beginning in the annals of the Indian money market. The nationalization of banks in 1969, setting up of various committees such as the Sukhoi Chakraborty Committee (1982), the Vague working group (1986), the setting up of discount and finance house of India ltd. (1988), the securities trading corporation of Improvise (1994) and the commencement of liberalization and globalization process in 1991 gave a further fillip for the integrated and efficient development of India money market.

Participants: -

The money market consists of financial institutions and dealers in money or credit who wish to either borrow or lend. Participants borrow and lend for short periods, typically up to twelve months. Money market trades in short-term financial instruments commonly called "paper". This contrasts with the capital market for longer-term funding, which is supplied by bonds and equity.

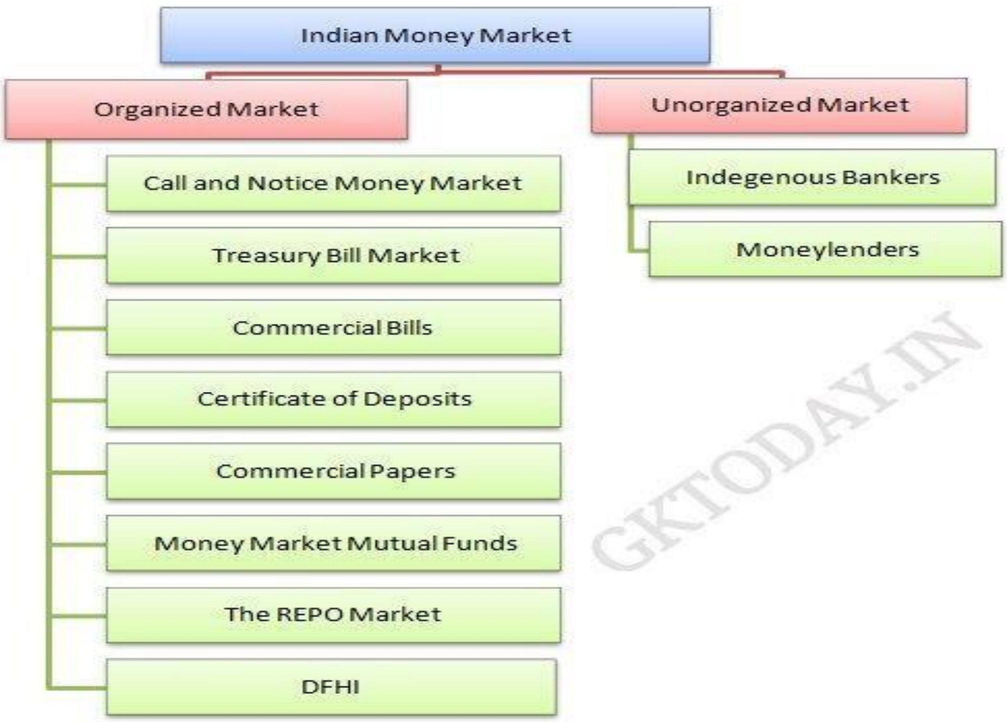
The core of the money market consists of interbank lending—banks borrowing and lending to each other using commercial paper, repurchase agreements and similar instruments. Trading companies often purchase bankers' acceptances to tender for payment to overseas suppliers.

- Retail and institutional money market funds
- Banks
- Central banks
- Cash management programs
- Merchant bank

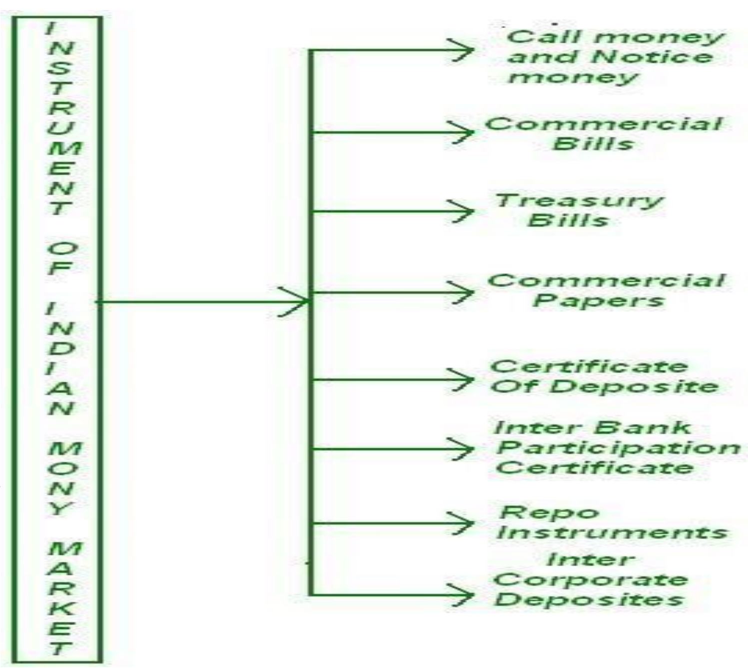
Types of Money Market Instruments: -

Structure of Indian Money Market – Chart: -

The entire money market in India can be divided into two parts. They are organized money market and the unorganized money market. The unorganized money market can also be known as an unauthorized money market. Both of these components comprise several constituents. The following chart will help you in understanding the organizational structure of the Indian money market.



Structure: -



Evolution of money market in India: -

The existence of money market could be traced back to *hundis* or indigenous bills of exchange. These were in use from the 12th century and it appears from the writings of few Muslim historians, European travelers, state records and the Ain-I-abkari that indigenous bankers played a prominent part in lending money both under the early Muslim and mogul rulers in India. The indigenous bankers financed internal and foreign trade with cash or bill and gave financial assistance to rulers during period of stress. The money market in India is not a single homogeneous entity and may be divided into two parts: (a) the central part- consisting of the Reserve Bank of India, State Bank of India, the Public-Sector Bank, the Private Sector Bank, the Exchange Banks, and the other development financial institution; and (b) the bazaar part-consisting of the money –lenders, indigenous bankers, loan office, chit funds, nidhis, etc., and the co-operative banks occupying the intermediate position. The connection between these parts is incomplete as the Indian financial system was somewhat loosely organized and without much cohesion until 1935 and lacked a central coordinating agency. Till then, the central part was largely dominated by government, which controlled currency and through it influenced the bank rate decisively.

Major Reforms in Indian Money Market

1. Deregulation of Interest Rates: -

Some of the important policies in the deregulation of interest rates have been:

1. The lending and deposit rates that have, over time, been considerably freed. Lending rates are now linked to the PLR, and the banks depending on their risk perceptions freely determine the spreads. Deposit rates beyond one year have been freed, and deposit rates less than one year linked or pegged to the Bank Rate. All refinance; the OMO operations and liquidity to the Primary Dealers (PDs) have been linked to the Bank Rate. To that extent the Bank Rate has been emerging as a kind of reference rate in the interest rate scenario.
2. The second interesting aspect has been that the borrowings by the government (since 1992) have been at market rates.
3. The PSUs and FIs, who had been largely depending on budgetary support for their resources, have been forced to go to the market to raise their resource requirements.

Chapter 2

Review of Literature: -

<u>Rastogi Nikhil</u> (2008) Article: Money Market Integration in India: A Time Series Study Says that Indian financial markets have achieved much from the highly controlled pre-liberalization era. He denotes that the main focus is on achieving efficiency, which is the trade mark of any developed financial market. This research paper tests the efficiency and extent of integration between financial markets observed at the short end of the market.

Rusty Sadananda (2007) Article: Market efficiency and financial markets integration in India in their work examined the impact of economic reforms on the integration of various segments of the financial market in India over the time series tools during the period from March 2006 to March 2012.

<u>Sukhmoy Chakravarty Committee</u> (1982) *Articles: - Recommended for call money market*. Examined the study of call money market for India was first recommended by the Sukhmoy Chakravarty. Committee was set up in 1982 to review the working of the monetary system.

<u>Narasimham Committee</u> (1998) Articles: - observation on call/money/term money market examined the Narasimham Committee II (1998) concurred with the Vaghul Committee as it also observed that call/notice/term money market in India, like in most other developed markets, should be strictly restricted to banks.

Reserve Bank of India (2010) in his discussion paper "Deregulation of Savings bank Interest rates: A Discussion paper" try to put the pros and cons of deregulation of savings deposits interest rates in India. Regulation of interest rates imparts rigidity to the instrument/product as rates are either not changed in response to changing market conditions or changed slowly.

Conclusion: -

The call money market decreases the repo rate, but the bank manages the cheaper money of their surplus breakdown through reverse repo rate.

The bank has to report this issue to RBI within to week.

Rastogi says that the Indian money market has achieved more from the pre-liberalization era.

In his research he concluded that although markets have achieved integration in some of its branches, but they still have to attain full integration.

He said that the main objective or focus is on creating efficiency or growth of money market.

The monetary policy should rely more on interest rate and asset price channels to control inflation.

The Chakravarty Committee recommended the additional nonbank participants may be allowed to participate in call money market.

The Vaghul Committee introduce the money market and broaden the instrument of money market. The money market is usually for short-term period i.e. less than one year.

THE Narasimham Committee study the observation of call and term money.

Interest are collected periodically by the depositor by depositing.

Because of change in RBI regulation there is change the rate of interest

Because of **inflation** there is change in the rate of interest it affects the rate of interest.

Chapter 3

Research Methodology: -

Methodology is an essential part of research to find answer to the research objective that initiate the same. Therefore, it figures as an important part of the study.

Type of research: -

my research is based on descriptive research. It helps to know qualitative and quantitative aspects of study. It studies the characteristics of Indian Money Market and see to it that how we can bring more agencies in India. It is used because this topic is being studies only to understand the concept and the problem it faces. However, my research also studies Review of Literature which acts as a base for Descriptive study.

Data Collection: -

Data for the study was collected from the primary as well as secondary sources.

PRIMARY SOURCE OF DATA COLLECTION: -

Primary source of data collection consisted of survey method. The survey was collected through a Structured Questionnaire. The questionnaire was prepared keeping in mind the objectives of the study and factors that were to be considered for the study. Questionnaire was prepared in such a manner that it could be easily understood by the respondents. The questionnaire being structured was in a single format to save time of the respondents.

SECONDARY SOURCE OF DATA COLLECTION: -

The secondary data is taken from selective websites and from online publication of some researchers. The secondary data was useful for the study of Review of Literature. We could study various aspects of different researchers which gave us an idea about the factors being previously discussed and also the conclusions drawn from them. It also gave us an insight on what more could be studied to solve the research problem.

Data Analysis; -

The application of statistical tools and techniques for the data collected by means of questionnaires is been classified tabulated analyzed and summarized with the help of statistical tool percentage method.

Limitation of the study: -

The study is based on limited scope of area.

Whole market cannot be collected.

Objective of Study: -

The objective of the project are as follows: -

To study about INDIAN MONEY MARKET AND its related aspects like its types and the instruments.

To study about the history, participant, organizational structure of INDIAN MONEY (MONETORY) MARKET.

To find out the investors saving preferences.

To study about overcoming the short-term deficit.

To enable liquidity in the market.

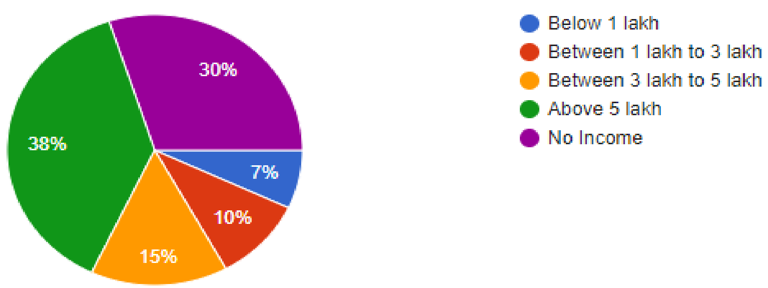
Chapter 4

DATA ANALYSIS: -

Interpretation and Presentation :-

1) What is your annual income?

SR. NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	Below 1 lakh	7	7%
2	Between 1 lakh to 3 lakhs	10	10%
3	Between 3 lakhs to 5lakhs	15	15%
4	Above 5 lakhs	38	38%
5	No income	30	30%

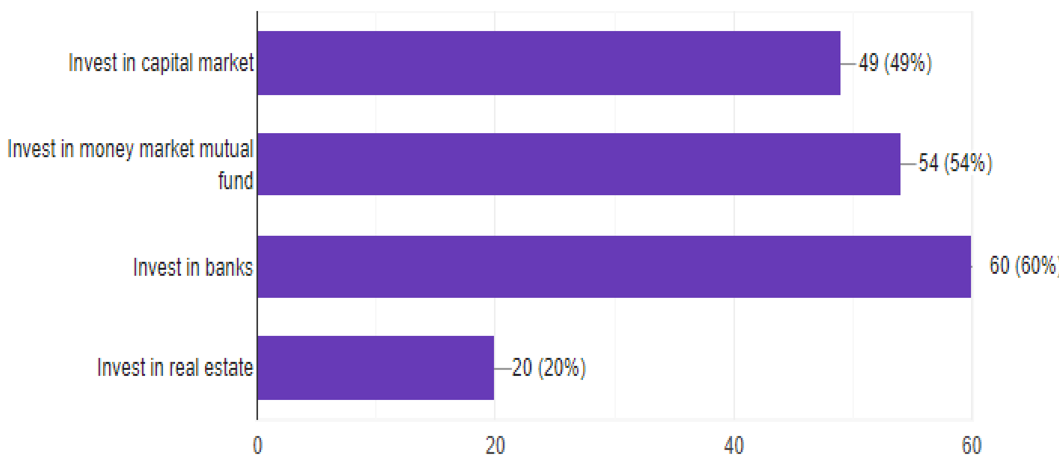


Interpretation: -

There were total 100 responses out of which 7% respondents have annual income of below 1 lakh. 10% respondents have an annual income between 1 lakh to 3 lakhs, between 3 lakhs to 5 lakhs were of 15%, above five lakhs were 38% and for no income there are 30%

2) How do you invest in your saving?

SR NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	Invest in capital market	49	49%
2	Invest in money market mutual fund	54	54%
3	Invest in bank	60	60%
4	Invest in real estate	20	20%

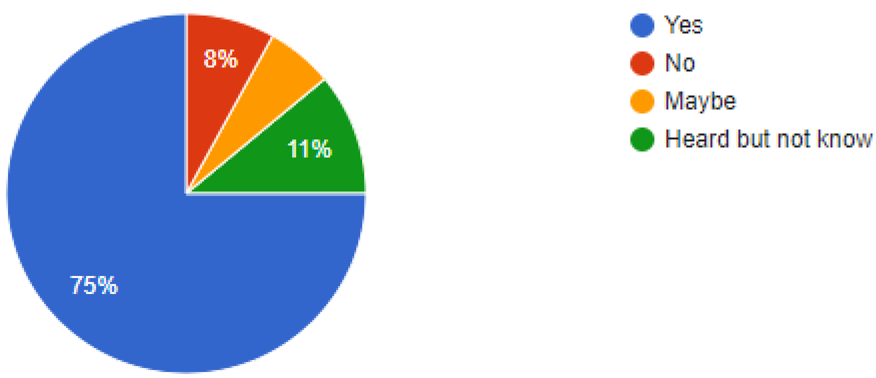


Interpretation: -

From the above data we can see that 49% of the respondents invest in capital market, 54% of respondents invest in money market mutual fund, 60% invest in banks and 20 % invest in real estate.

3) Do you have any knowledge about money market instruments?

SR NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	YES	75	75%
2	NO	8	8%
3	MAYBE	6	6%
4	HEARD BUT DON'T KNOW	11	11%

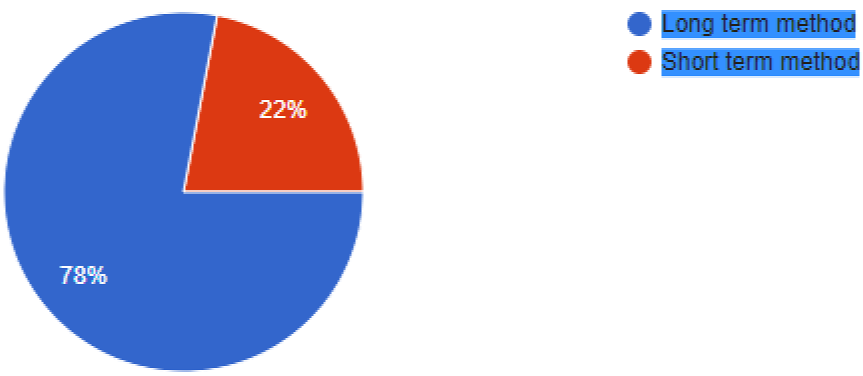


Interpretation: -

From the above analysis we can see that 75% have heard about money market and knows about that, while there are 6% people who aren't sure about this, 11% people have heard about the term money market but have no knowledge about that and then about 8% of the respondents don't know anything about money market

4) How long would you like to hold your money market instruments?

SR NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	LONG TERM METOD	78	78%
2	SHORT TERM METHOD	22	22%

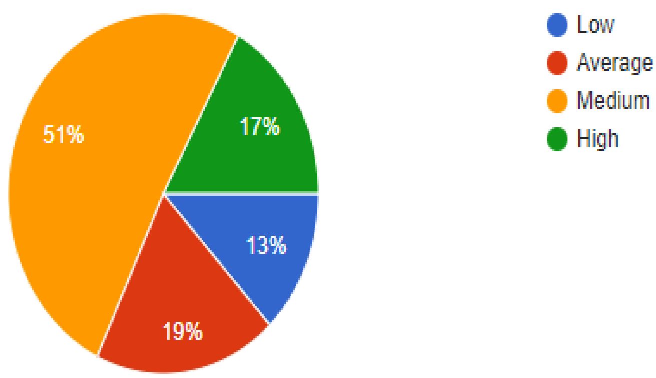


Interpretation: -

From the above data 78% of the people like to keep money market instruments for long term method while other people which are about 22 % keep it for the short-term method. We can see that most of them are willing to keep their investment for long term.

5) How much risk will you be willing to take?

SR NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	LOW	13	13%
2	AVERAGE	19	19%
3	MEDIUM	51	51%
4	HIGH	17	17%

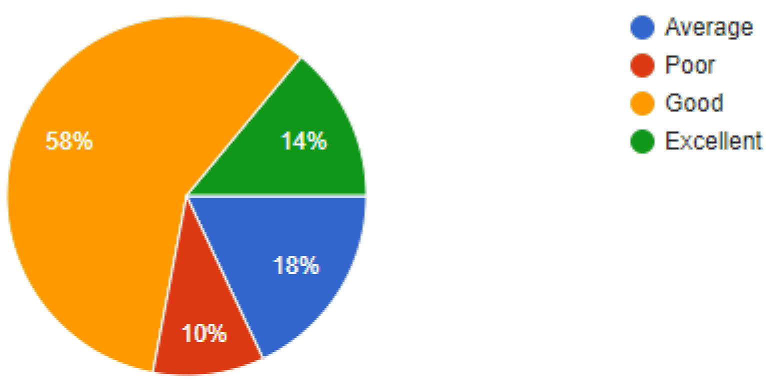


Interpretation: -

From the above data we can see that 13% respondents will take low level of risk, while 17% of respondents will take high amount of risk. 19% of respondents will take risk at average level. Most of the respondents are willing to take average number of risks.

6) How would you rate your experience with Indian money market?

SR NO	PARTICULARS	FREQUENCY	PERCENTAGE
1	AVERAGE	18	18%
2	POOR	10	10%
3	GOOD	58	58%
4	EXCELLENT	14	14%

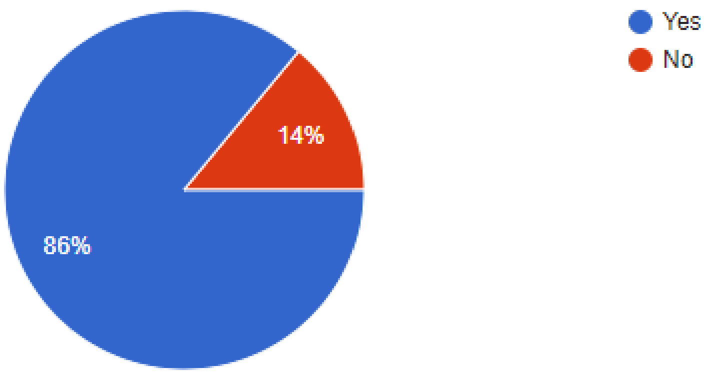


Interpretation: -

From the above analysis we can see that 10% respondents didn't have a good experience with Indian market while 14% respondents had excellent experience with Indian Market.

7) Is recession had affected your investment decision?

SR NO	PARTICULARS	FREQUENCY	PERCENTAGE
1	YES	86	86%
2	NO	14	14%

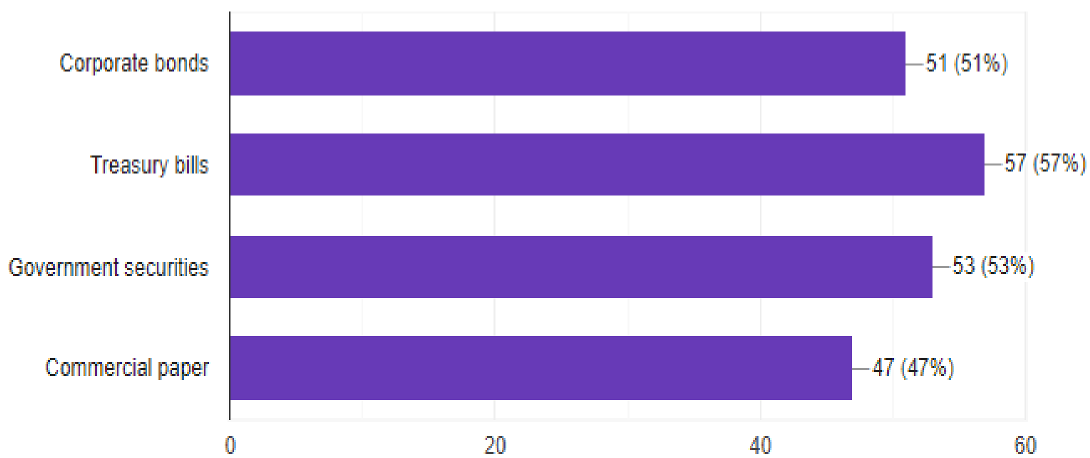


Interpretation: -

From the above data we can see that 86% respondents experienced that recession has affected their Investment decision while 14% respondents were not affected by recession

8) For fixed income what type of instrument would prefer?

SR NO	PARTICUL-ARS	FREQUEN-CY	PERCENTA-GE
1	Corporate Bond	51	51%
2	Treasury Bills	57	57%
3	Government Securities	53	53%
4	Commercial Papers	47	47%



Interpretation: -

From the above data we can see that 51% of respondent invest in corporate bonds, 57% in treasury bills, 53% in government securities and 47% of respondents invest in commercial paper.

Findings: -

1) Is past price affect the present price?

- There may be change in the price because of change in demand or change in the economic condition due to this price can increase or decrease as the demand changes or there can be no change in price even the demand changes.

2) Is there any change in economic growth?

- Yes, there can be change in the economic condition as in the above itself say that change in the economic condition tends to change the price, therefore there can be positive, negative, or no change in the economic growth.
- Recession may have positive or negative impact on economy

3) How can one manage the short-term deficit?

- One can overcome the short-term deficit by managing the funds
- Managing the funds means there can be issue of money market securities or,
- One can do nothing i.e. (under come of short term deficit).

4) Does recession tend to liquidate the money market instruments?

- From the above question at the time of recession, the investor may liquidate their investment from the market, purchase the instrument or do nothing (hold).
- Recession have an impact on the liquidity.

5) Is there a risk in money market instruments?

- Money market instruments is a minimal risk or no risk instruments in the market as they are for shorter period i.e. (a year or less than one year).it has low risk or no risk instrument in the market.
- The instrument is divided in various risk categories elevated risk, minimal risk, or no risk instruments.

Suggestion

Few suggestions relevant to the development of money market in India are enumerated below:

There should be a mechanism to make the call range bound which may reduce uncertainty and provide confidence to the bankers for lending/borrowing. In the context, it is emphasized that Repos and Reverse Repos conducted by RBI has the potential to set the floor and ceiling in the call money market.

Besides, Repo mechanism, call money market, needs to be supplemented by Open Market Operation (OMO). OMO can influence interest rate as well as volumes in the market.

Non-bank segment should be brought under the same regulation on par with the banks early as possible so that level playing field is created.

Transparency should be ensured in money market transaction. There should be screen based trading with two-way quotes for each money market instruments.

The lock-in period of CDs and CPs should be completely removed in a phase manner.

Retailing of government papers should be encouraged. The primary dealers can play a role in this context.

Currently FIIs are allowed in government dated securities in primary as well as secondary market. More FII participation could be encouraged.

Money Market Mutual Funds should be set up by various banks and institutions. This would increase the retail participation in the market.

Chapter 5

Conclusion: -

- The money market is a vibrant market, affecting our everyday lives. As the short-term market for money, money changes hands in a short time frame and the players in the market have to be alert to changes, up to date with news and innovative with strategies and products.
- The withdrawal of non-bank entities from the inter-bank call-money market is linked to the improvement of settlement systems.
- Any time-bound plan for the evolution of a pure inter-bank call/notice money market would be ineffective till the basic issue of settlements is addressed.
- In brief, various policy initiatives by the Reserve Bank have facilitated development of a wider range of instruments such as market repo, interest rate swaps, CDs and CPs.
- This approach has avoided market segmentation while meeting demand for various products.
- These developments in money markets have enabled better liquidity management by the Reserve Bank.
- The money market specializes in debt securities that mature in less than one year
- Money market securities are very liquid, and are considered very safe. As a result, they offer a lower return than other securities.
- The easiest way for individuals to gain access to the money market is through a money market mutual fund.

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SBI DHFI SITE	http://sbidhfi.com/
INDIAN INSTITUTE OF BANKING AND FINANCE	http://www.iibf.org.in

Chapter 6

Appendix

Questionnaire: -

1) What is your annual income?
a) Below 1 lakh.
b) Between 1 lakh to 3 lakhs.
c) Between 3 lakhs to 5 lakhs.
d) Above 5 lakhs.

2) How do you invest your saving?
a) Invest in capital market.
b) Invest in money market mutual fund.
c) Invest in banks.
d) Invest in real estate.

3) Do you have any knowledge of money market instruments?
a) Yes
b) No
c) Maybe
d) Heard but didn't know

4) How long do you like to hold your money market instruments?
a) Long term method
b) Short term method

5) How much risk will you be willing to take?
a) Low
b) Average
c) Medium
d) High

6) In your opinion what is your expected rate of returns?
a) Between 10%
b) Between 10%-20%
c) Between 20%-30%
d) Above 30%

7) How would you rate your experience with Indian money market?
a) Average
b) Poor
c) Good
d) Excellent

8) Is recession had affected your investment decision?

a) Yes
b) No

9) For fixed income what type of investment would you prefer?
a) Corporate bond
b) Treasury bill
c) Government securities
d) Commercial paper

10) what will be your course of action during recession?
a) Buy
b) Sell
c) Hold