Indian Money Market - Features

Every money is unique in nature. The money market in developed and developing countries differ markedly from each other in many senses. Indian money market is not an exception for this. Though it is not a developed money market, it is a leading money market among the developing countries.

Indian Money Market has the following major features or characteristics :-

1. **Dichotomic Structure** : It is a significant aspect of the Indian money market. It has a simultaneous existence of both the organized money market as well as unorganised money markets. The organized money market consists of RBI, all scheduled commercial banks and other recognized financial institutions. However, the unorganized part of the money market comprises domestic money lenders, indigenous bankers, trader, etc. The organized money market is in full control of the RBI. However, unorganized money market remains outside the RBI control. Thus both the organized and unorganized money market exists simultaneously.
2. **Seasonality** : The demand for money in Indian money market is of a seasonal nature. India being an agriculture predominant economy, the demand for money is generated from the agricultural operations. During the busy season i.e. between October and April more agricultural activities takes place leading to a higher demand for money.
3. **Multiplicity of Interest Rates :** In Indian money market, we have many levels of interest rates. They differ from bank to bank from period to period and even from borrower to borrower. Again in both organized and unorganized segment the interest rates differs. Thus there is an existence of many rates of interest in the Indian money market.

4. **Lack of Organized Bill Market :** In the Indian money market, the organized bill market is not prevalent. Though the RBI tried to introduce the Bill Market Scheme (1952) and then New Bill Market Scheme in 1970, still there is no properly organized bill market in India.
5. **Absence of Integration** : This is a very important feature of the Indian money market. At the same time it is divided among several segments or sections which are loosely connected with each other. There is a lack of coordination among these different components of the money market. RBI has full control over the components in the organized segment but it cannot control the components in the unorganized segment.
6. **High Volatility in Call Money Market** : The call money market is a market for very short term money. Here money is demanded at the call rate. Basically the demand for call money comes from the commercial banks. Institutions such as the GIC, LIC, etc suffer huge fluctuations and thus it has remained highly volatile.
7. **Limited Instruments** : It is in fact a defect of the Indian money market. In our money market the supply of various instruments such as the Treasury Bills, Commercial Bills, Certificate of Deposits, Commercial Papers, etc. is very limited. In order to meet the varied requirements of borrowers and lenders, It is necessary to develop numerous instruments.

Drawbacks of Indian Money Market

Though the Indian money market is considered as the advanced money market among developing countries, it still suffers from many drawbacks or defects. These defects limit the efficiency of our market.

Some of the important defects or drawbacks of Indian money market are :-

1. **Absence of Integration :** The Indian money market is broadly divided into the Organized and Unorganized Sectors. The former comprises the legal financial institutions backed by the RBI. The unorganized statement of it includes various institutions such as indigenous bankers, village money lenders, traders, etc. There is lack of proper integration between these two segments.

2. **Multiple rate of interest :** In the Indian money market, especially the banks, there exists too many rates of interests. These rates vary for lending, borrowing, government activities, etc. Many rates of interests create confusion among the investors**.**

3. **Insufficient Funds or Resources** : The Indian economy with its seasonal structure faces frequent shortage of financial recourse. Lower income, lower savings, and lack of banking habits among people are some of the reasons for it.

4. **Shortage of Investment Instruments :** In the Indian money market, various investment instruments such as Treasury Bills, Commercial Bills, Certificate of Deposits, Commercial Papers, etc. are used. But taking into account the size of the population and market these instruments are inadequate.

5. **Shortage of Commercial Bill :** In India, as many banks keep large funds for liquidity purpose, the use of the commercial bills is very limited. Similarly since a large number of transactions are preferred in the cash form the scope for commercial bills are limited.

6. **Lack of Organized Banking System :** In India even through we have a big network of commercial banks, still the banking system suffers from major weaknesses such as the NPA, huge losses, poor efficiency. The absence of the organized banking system is major problem for Indian money market**.**

7. **Less number of Dealers :** There are poor number of dealers in the short-term assets who can act as mediators between the government and the

banking system. The less number of dealers leads tc the slow contact between the end lender and end borrowers.

These are some of the major drawbacks of the Indian money market; many of these are also the features of our money market.

. THE REFORMS IN THE INDIAN MONEY MARKET The Reserve Bank of India has been making efforts to remove the defects of th Indian money market. Vaghul Committee on money market Sukhmoy Chakravarty Committee on the Review of the working of the Monetary System and Narasimham Committee on the working of Financial System have made important recommendations on the Indian money market.

1. Development of money market instruments: The new instruments are 182 days treasury bills, longer maturity bills, dated Government securities, certificates of deposits and commercial papers, 3-4 days repos and 1 day repos from 1998-1999. The 182 days bills which were discontinued in 1992 have been reintroduced from School of distance education Financial Markets and services Page 30 1998-1999. Now Indian money market has 14 days, 91 days, 182 days and 364 days treasury bills.

2. Deregulation of interest rates: Helps banks to accustom better pricing of assets and liabilities and to the need to manage interest rates across their balance sheet.

3. Institutional Development: The institutional infrastructure in government securities has been strengthened with the system of primary Dealers announced in March 1995 and that of satellite Dealers in December 1996.

4. Money market mutual funds: In 1992 setting up of money market mutual funds was announced to bring it within the reach of individuals. These funds have been introduced by financial institutions and banks.

5. Permission to foreign institutional investors (FIIs): FIIs are allowed to operate in all dated government securities. The policy for 1998-1999 has allowed them to buy treasury Bill’s within approved debt ceiling.