Defects of Indian Money Market :

A well-developed money market is a necessary pre-condition for the effective implementation of monetary policy. The central bank controls and regulates the money supply in the country through the money market. However, unfortunately, the Indian money market is inadequately developed, loosely organised and suffers from many weaknesses. Major defects are discussed below:

1. Dichotomy between Organised and Unorganised Sectors:

The most important defect of the Indian money market is its division into two sectors: (a) the organised sector and (b) the unorganised sector. There is little contact, coordination and cooperation between the two sectors. In such conditions it is difficult for the Reserve Bank to ensure uniform and effective implementations of monetary policy in both the sectors.

2. Predominance of Unorganised Sector:

Another important defect of the Indian money market is its predominance of unorganised sector. The indigenous bankers occupy a significant position in the money-lend-ing business in the rural areas. In this unorganised sector, no clear-cut distinction is made between short-term and long-term and between the purposes of loans. These indigenous bankers, which constitute a large portion of the money market, remain outside the organised sector. Therefore, they seriously restrict the Reserve Bank's control over the money market,

3. Wasteful Competition:

Wasteful competition exists not only between the organised and unorganised sectors, but also among the members of the two sectors. The relation between various segments of the money market are not cordial; they are loosely connected with each other and generally follow separatist tendencies. For example, even today, the State Bank of Indian and other commercial banks look down upon each other as rivals. Similarly, competition exists between the Indian commercial banks and foreign banks.

4. Absence of All-India Money Market:

Indian money market has not been organised into a single integrated all-Indian market. It is divided into small segments mostly catering to the local financial needs. For example, there is little contact between the money markets in the bigger cities, like, Bombay, Madras, and Calcutta and those in smaller towns.

5. Inadequate Banking Facilities: **Indian money market is inadequate to meet the financial need of the economy. Although there has been rapid expansion of bank branches in recent years particularly after the nationalisation of banks, yet vast rural areas still exist without banking facilities. As compared to the size and population of the country, the banking institutions are not enough.**

6. Shortage of Capital:

Indian money market generally suffers from the shortage of capital funds. The availability of capital in the money market is insufficient to meet the needs of industry and trade in the country. The main reasons for the shortage of capital are: (a) low saving capacity of the people; (b) inadequate banking facilities, particularly in the rural areas; and (c) undeveloped banking habits among the people.

7. Seasonal Shortage of Funds:

A Major drawback of the Indian money market is the seasonal stringency of credit and higher interest rates during a part of the year. Such a shortage invariably appears during the busy months from November to June when there is excess demand for credit for carrying on the harvesting and marketing operations in agriculture. As a result, the interest rates rise in this period. On the contrary, during the slack season, from July to October, the demand for credit and the rate of interest decline sharply.

8. Diversity of Interest Rates:

Another defect of Indian money market is the multiplicity and disparity of interest rates. In 1931, the Central Banking Enquiry Committee wrote: "The fact that a call rate of 3/4 per cent, a hundi rate of 3 per cent, a bank rate of 4 per

cent, a bazar rate of small traders of 6.25 per cent and a Calcutta bazar rate for bills of small trader of 10 per cent can exist simultaneously indicates an extraordinary sluggishness of the movement of credit between various markets." The interest rates also differ in various centres like Bombay, Calcutta, etc. Variations in the interest rate structure is largely due to the credit immobility because of inadequate, costly and time-consuming means of transferring money. Disparities in the interest rates adversely affect the smooth and effective functioning of the money market.

9. Absence of Bill Market:

The existence of a well-organised bill market is essential for the proper and efficient working of money market. Unfortunately, in spite of the serious efforts made by the Reserve Bank of India, the bill market in India has not yet been fully developed. The short-term bills form a much smaller proportion of the bank finance in India as compared to that in the advanced

Many factors are responsible for the underdeveloped bill market in India:

(i) Most of the commercial transactions are made in terms of cash.

(ii) Cash credit is the main form of borrowing from the banks. Cash credit is given by the banks against the security of commodities. No bills are involved in this type of credit.

(iii)The practice of advancing loans by the sellers also limits the use of bills.

(iv) There is lack of uniformity in drawing bills (bundles) in different parts of the country.

(v) Heavy stamp duty discourages the use of exchange bills.

(vi) Absence of acceptance houses is another factor responsible for the underdevelopment of bill market in India.

(vii) In their desire to ensure greater liquidity and public confidence, the Indian banks prefer to invest their funds in first class government securities than in exchange bills.

(viii) The Reserve Bank of India also prefers to extend rediscounting facility

Difference between money market and capital market

Basis	Money Market	Capital Market
Meaning	A random course of financial institutions, bill brokers, money dealers, banks, etc., wherein dealing on short-term financial tools are being settled is referred to as Money Market.	A kind of financial market where the company or government securities are generated and patronised for the intention of establishing long-term finance to coincide the capital necessary is called as Capital Market.
Nature of Market	Informal	Formal
Financial Tools	Commercial Papers, Treasury Certificate of Deposit, Bills, Trade Credit, etc.,	Bonds, Debentures, Shares, Asset Securitization, Retained Earnings, Euro Issues, etc.,
Organizations	Commercial bank, bill brokers, non-financial institutions, the central bank, acceptance houses, and so on.	The stock exchange, Commercial banks, non-banking organisations like insurance companies etc.,
Risk Factor	Low	High

Liquidity	High	Low
Purpose	To achieve short term credit requirements of the trade.	To achieve long term credit requirements of the trade.
Time Horizon	Within a year	More than a year
Merit	Rises liquidity of capitals in the market.	Mobilization of Economies in the market.
Return on Investment	Less	High