

A close-up photograph of a hand holding a blue pen over a document. The document has a large, faint, circular area circled in red. The background is slightly blurred, showing the texture of the paper and the hand holding the pen.

MONEY MARKET

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INTRODUCTION

- Financial Market is an important component of the financial system.
- It is a market where financial securities are traded.
- It performs following functions:
 - Borrowing
 - Lending
 - Price determination
 - Liquidity
 - Risk sharing



COMPONENTS OF FINANCIAL MARKET

Money Market

Capital Market

MONEY MARKET

- ✘ A key component of financial system.
 - ✘ Deals with short term funds (maturity less than one year).
 - ✘ Not a particular place but the whole area where money is bought and sold.
- “ Money market is the term designed to include the financial institutions which handle the purchase, sale and transfer of short term credit instruments”.


McGraw Hill Dictionary of Modern Economics

FEATURES OF MONEY MARKET

- ✓ Deals in short term securities
- ✓ Ensures liquidity
- ✓ Minimum transaction cost
- ✓ Several sub markets
- ✓ Influence of Central Bank
- ✓ Physical contact not necessary
- ✓ Flexible in nature
- ✓ Different from capital market
- ✓ Brokers
- ✓ Heterogeneous market



FUNCTIONS OF MONEY MARKET



Economic Development

- Maintain Equilibrium
- Helpful to central Bank
- Self Sufficiency of Commercial Banks

Barometer of National Economy

- Less Risky Investment
- Generate Employment
- Provide Funds to Government

Investment Priorities

- Profitable Investment
- Investment Safety
- Financing Industry

STRUCTURE OF MONEY MARKET

Components

- Organised Sector
- Unorganised Sector

Participants

- Organised
- Unorganised

Instruments

- T-Bills
- Commercial Papers
- Certificate of Deposit
- Commercial Bills
- Money at call and Short Notice

STRUCTURE CONTD.....

(I) Components of Money Market

(A) Organised Sector

- Call Money Market
- Collateral Loan Market
- Acceptance Market
- Bill Market
 - Commercial Bill market
 - Treasury Bill market

(B) Unorganised Sector

- Indigeneous Bankers
- Money Lenders
- Unregulated Non Bank Financial Intermediaries
- Finance Brokers

STRUCTURE CONTD.....

(II) Participants of Money market

(A) Organised Sector

- ✓ Central and State Government
- ✓ Public sector undertakings
- ✓ Private sector companies
- ✓ Non banking financial institutions
- ✓ Mutual funds
- ✓ Insurance companies
- ✓ Primary dealers

(B) Unorganised Sector

- ✓ Indigenous bankers
- ✓ Money lenders

STRUCTURE CONTD..... (T-BILLS)

(III) Instruments of Money Market

1. Treasury Bills

- ✘ Represents the short term borrowings of the Government of India.
- ✘ Issued in the form of promissory notes.
- ✘ Highly liquid and safe investments
- ✘ 91 day bill, 182 day bill and 364 day bill.
- ✘ No need of any grading
- ✘ Risk free security
- ✘ Low transaction cost

STRUCTURE CONTD..... (COMMERCIAL PAPER)

2. Commercial Paper

- ❑ Short term unsecured debt instruments.
- ❑ Negotiable by endorsement and delivery.
- ❑ Issued at discount to face value and redeemed at par.
- ❑ Are considered to be safe instrument.
- ❑ Offer the facility of buy back.
- ❑ Used by the companies to finance the current transactions.
- ❑ The expenses related to commercial papers are to be borne by the company.

STRUCTURE CONTD..... (COMMERCIAL PAPER)

RBI Guidelines on Issue of Commercial Papers by Companies

➤ Eligibility Criteria

- Minimum networth of company =4 crores
- Borrowal account f company must be in the category of standard asset.
- Minimum credit rating of P2 by CRISIL or equivalent rating by some approved agency

➤ Maturity Period

15 days to 12 months

➤ Denomination

Can be issued in denominations of Rs. 5 lakh and multiples of Rs. 5 lakh

STRUCTURE CONTD..... (COMMERCIAL PAPER)

➤ Investors

- Individuals
- Banks
- Corporates
- NRIs

➤ Mode of Issuance

- Promissory note
- Dematerialized form

➤ Stand- by- Facility

- No obligation on banks and financial institutions to provide stand by facility

STRUCTURE CONTD..... (CDS)

3. Certificate of Deposit (CD)

- Negotiable money market instrument.
- Issued in dematerialised form or usance promissory note.
- Can be issued by all scheduled commercial banks.
- Offers high rate of return as compared to term deposit.

STRUCTURE CONTD..... (CDS)

Guidelines on Issue of Certificate of Deposit by Companies

- Eligibility- Can be issued by scheduled commercial banks (Except RRBs and LABs) and all India financial institutions.
- Aggregate Amount-Can be issued by the banks as per their funding requirements or umbrella limit fixed by RBI
- Minimum Size and Denominations
 - Minimum amount = Rs. One lakh
 - Denomination is minimum Rs. One lakh and in multiples of Rs. One lakh.
- Maturity-7 days to one year
- Discount/Coupon Rate- May be issued at discount on face value
- Reserve Requirements- CRR and SLR is to be maintained, on the issue price of CDs.

STRUCTURE CONTD..... (CDS)

- Investors
 - Individuals
 - Corporations
 - Trusts
 - NRIs(non repatriable basis)
 - Associations etc.
- Loans/Buy Backs- Loans cannot be granted against CDs
 - Buy back of CDs is not allowed.
- Security Aspect
 - CRR and SLR is to be maintained, on the issue price of CDs.

STRUCTURE CONTD..... (CDS)

- Payment of Certificate
 - Physical certificate presented by last holder
 - Need to approach the DP in case of dematted CDs
- Issue of Duplicate Certificate- In case of loss of physical certificates:
 - Notice to be given in atleast one local newspaper
 - Lapse of minimum 15 days from the date of notice
- Reporting- Banks to include the amount of CDs in the fortnightly return and also to show by way of footnote.
 - CRR and SLR is to be maintained, on the issue price of CDs.

STRUCTURE CONTD..... (COMMERCIAL BILLS)

4. Commercial Bills

- ✓ Short term, negotiable, self liquidating instrument.
- ✓ Payable at a future date.
- ✓ Seller may discount the bill with the bank.
- ✓ Commercial banks may rediscount with financial institutions.
- ✓ Demand bill is payable on demand
- ✓ Usance bill is payable after a specified time.

STRUCTURE CONTD.....CALL LOANS

5. Call Loans

- ✓ Inter bank loans of short duration
- ✓ Duration is from 1-14 days
- ✓ Granted without any collateral security.
- ✓ Low rate of interest and highly volatile
- ✓ Main participants are RBI, Scheduled commercial banks, Co-operative banks and primary dealers.

DRAWBACKS OF INDIAN MONEY MARKET

Absence of integration

Multiple rate of interest

Shortage of investment instruments

Less number of dealers

Absence of All India money market

Infefficient management

REFORMS IN INDIAN MONEY MARKET

- ✓ Deregulation of interest rates
- ✓ Money Market Mutual Funds (MMMFs)
- ✓ Establishment of DFHI
- ✓ Liquidity Adjustment Facility (LAF)
- ✓ Establishment of CCIL
- ✓ Electronic transactions
- ✓ Regulation of NBFCs
- ✓ Recovery of debts
- ✓ Minimum lock in period

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