

A PROJECT REPORT ON
A STUDY OF INDIAN MONEY MARKET

A Project Submitted to
University of Mumbai for Partial Completion of the Degree
of Bachelor in Commerce (Accounting and finance)
Under the Faculty of Commerce

By

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T.Y.B.A.F (SEMESTER – VI)

Under the Guidance of

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Mohanlal RAICHAND Mehta College of Commerce Diwali Maa
College of Science AMRITAT Mehta College of Arts DR. R.T. Doshi
College of Computer Science NAAC Re-Accredited Grade 'A+'
(CGPA: 3.31) (3rd Cycle) Sector-19, AIROLI, Navi Mumbai,
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CERTIFICATE

This is to certify that **MS. PRIYA RAJESH NAIKAR** has worked and duly completed his Project work for the degree of Bachelor in Commerce (Accounting and Finance) under the Faculty of Commerce in the subject of **ACCOUNT AND FINANCE** and his project is entitled, "**A STUDY OF INDIAN MONEY MARKET**". Under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and fact reported by her personal finding and investigations.

Guiding Teacher,
ASST. PROF. DR. KISHOR CHAUHAN.

Date of submission:

DECLARATION

I the undersigned **MS. PRIYA RAJESH NAIKAR** here by, declare that the work embodied in this project work titled "**A STUDY OF INDIAN MONEY MARKET**", forms my own contribution to the research work carried out by me under the guidance of **ASST. PROF. DR. KISHOR CHAUHAN** is a result of my own research work and has been previously submitted to any other University for any other Degree/ Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

(name)

Certified by:

ASST. PROF. DR. KISHOR CHAUHAN.

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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.

Let us now discuss the various money market instruments in India. In India the Money Market is regulated by RBI. Hence, the instruments traded and the players in the market require to be approved by RBI.

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 short 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. It is not like stock Market, but an activity conducted by telephone.

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. The basic aim of dealing in money market instruments is to fill the gap between the short-term liquidity problems or to use the Short-term surplus to gain income on that.

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.

Objective 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.

General Characteristics of Money Market: -

Money market is the short-term money market where financial assets that are the close substitute of money. Money market can exist anywhere where borrowers and lenders desires to enter into short term credit transaction as in any other market. Money market also has three constituents like any other market —

(I) Money market has buyers and sellers in the form of borrowers and lenders.

(2) It has a commodity in the form of instruments like Treasury Bill and Commercial Paper etc.

(3) It has a price in the form of rate of interest.

The term "Money Market" refers to the various firms and institutions dealing with several types of "near money". Near money consists of assets which can be converted into cash without any loss.

One of the features of money market is that it is not a one market but the collection of markets such as call and notice money market and bill market etc. All these markets have close inter-relationships.

An ideal money market is one where there are enormous number of participants.

Larger is the number of participants greater is the depth of the market.

It's only the money market which solves the problem.

If the problem is that of cash out flow more than cash receipts, they go to the money market looking for funds. If the problem is that of excess cash inflow, then the problem is again set off by money market for temporary fund deployment. Thus, it is the money market which meets short-term requirements of borrowers and provides profitable avenues to the lenders. The term money market is also known as a wholesale market. The volume of funds, traded in the market, are very large. There are skilled personnel to undertake the transactions. Trading in the market is attend beyond the telephone followed by written confirmation from both the borrowers and lenders.

Depending on supply of funds, Indian Money Market is divided into two markets:

- (a) The organized money markets
- (b) The unorganized money markets.

The participants in the organized money market are the Reserve Bank of India (RBI), Commercial Banks, Co-operative Banks, Unit Trust of India (UTI), Life Insurance Corporation of **India** (LIC), General Insurance Company (GIC). Discount and Finance House of India (DF HI), Industrial Development Bank of India (IDBI), National Bank of Agriculture and Rural Development (NABARD), Industrial Credit Investment Corporation of India (ICICI), Corporate bodies. The RBI has close links with money

market and it can justly be regarded as an important constituent of money market as it plays the vital role of controlling the flow of currency and credit in the market.

The unorganized sector consists of indigenous bankers who engage the banking business on traditional lines. Indigenous bankers follow their own rules of banking and finance. Attempts have been made by RBI to bring them under the organized market. But indigenous bankers as an aggregate not accepted the conditions prescribed by RBI.

The instruments in the money market are call money', Treasury Bills, Commercial Bills, Commercial Paper, Certificate of Deposits, Interbank Participation.

Money market has two strata:

- (a) the primary market and (b)
- the secondary market.

Where the lenders and borrowers directly deal with money or through brokers it is known as primary market. To make the instruments more liquid, the secondary market has been built up. Discount and Finance House of India Ltd. has been set up by the Reserve Bank of India to provide an active secondary market for money market.



In order to enable the small investors to get access to the money market so as to benefit from its yields, the Reserve Bank of India has issued broad guidelines to allow banks and the subsidiaries to set up Money Market Mutual Funds (MMMF) similar to mutual funds for stock market. MMMFs pool the investors funds through MMMF Unit/deposit account and invest this fund in money market instruments. With the liberalization and deregulation process initiated by RBI, several innovations have been introduced. But even then, the money market is not free from the following rigidities:

- Absence of **integration**
- Disparity of interest rates in different center
- Resistance of the unorganized money market
- High volatility
- Restricted/Limited number of players
- Limited number of instruments
- Absence of transparency in transactions
- Inefficient payment system

Efficient Money Market: The Conditionalities: -

Political stability in the country.

Presence of highly organized commercial banking systems.

Effectiveness of central banking authority.

Existence of demand for temporary surplus funds.

No fixed place for conduct of operations, the transactions can be conducted even on the phone and therefore, there is an essential need for the presence of well-developed communications system.

Dealings can be done with or without the help of the brokers.

The short-term financial assets that are dealt in are close substitutes for money, financial assets being converted into money with ease, speed, without loss and with minimum transaction cost.

Funds are traded for a maximum period of one year.

Money ₹ Market

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 marked 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 India (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.

Call money market is the oldest in the history of money market in India which provides the institutional arrangement for making the temporary surplus of some banks available to other banks which are temporarily in short of funds. The rate of interest paid on a call loan is known as the call-rate. The call rate in India was used to be determined by market forces till 1973. Due to the credit squeeze introduced by RBI in May 1973 in the form of raising the bank rate and tightening of refinance and rediscounting facilities, the call rate had reached as high a level as 30% in Dec. 1973. Due to this alarming level of call rate it became necessary to regulate it within a reasonable limit.

Therefore, the Indian Bank Association in 1973 fixed a ceiling of 15% on the level of call rate. Since the IBA has lowered the ceiling of 15% to 12.5% in March 1976, 10% in June 1977, 8.65 in March 1978 and 10% in April 1980. In India the call rate has always exceeded the bank rate except in the freak year 1955-66. The difference between two rates increased as the RBI tightened its refinancing and rediscounting facilities till 1975-76.

In 1980-81, the call rate was much higher than the bank rate. After 1981, call rate was slightly higher than the bank rate.

After Discount and Finance House of India (D.F.H.I.) commenced its operation in April 1988, it was permitted by R.B.I. to act as an arranger of funds in the call market. However, with effect from 28th July 1988, it has been allowed to participate both as the lender and as borrower in the call notice market. The call rate has seen freed from administrative ceiling in 2 stages.

Effective from October 1988, the operations of D.F.H.I., in the call market were exempted from the ceiling on the call rate.

With effect from 1st May 1989, the callings in the call rate and interbank term money rate were withdrawn. As a result, the call rate is freely determined by the forces of demand for and supply of call loan. There are now 2 call rates in India one is the inter-bank call rate and the other is the lending rate of D. H.I. in the call market.

The Bill Market Scheme was introduced by RBI in January 1952, before 1952, the banks were getting additional cash from RBI by selling their government securities. But now according to bill market scheme, a bank can grant loan to its customers against their promissory notes and it can use the same promissory notes to borrow from the Reserve Bank. All that the Bank is required to do is to convert these promissory notes into usance promissory notes maturing within 90 days. Initially it was restricted to (a) the schedule bank with a deposit Rs.10 crores and above, (b) loans with minimum limit of Rs.10 lakhs (c) individual bills, the minimum value of each being 1 lakh rupees.

The scope of the scheme was broadened from time to time.

- by making more banks eligible to borrow under the scheme
- by reducing the minimum limit of advances.
- by reducing the minimum eligibility value of bills.

- by extending the scheme to export bills with minimum usance of 180-Days.

The bill market scheme became so popular that the turnover under the scheme increased from Rs.29 crores in 1951-52 to Rs.228 crores in 1955-56 and to Rs.1354 crores in 1968-69. In 1970, RBI instituted Narasimha Committee to study the development of the bill market. In 1970, the new bill market scheme was introduced under sec 17(2) of the RBI acts.

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.

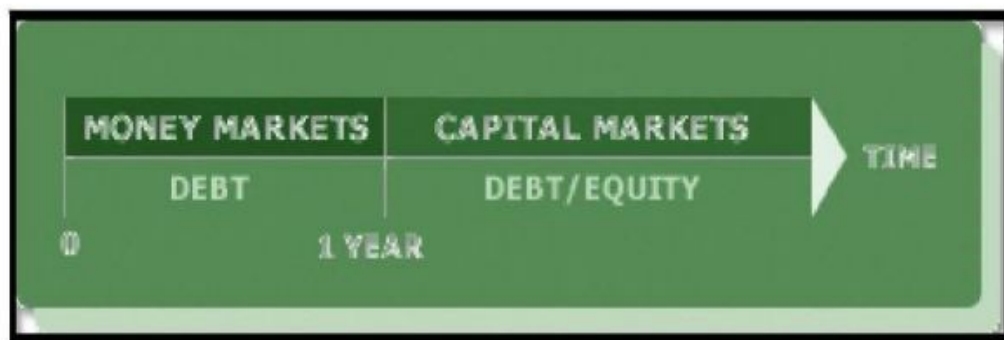
The core of the money market consists of interbank lending—banks borrowing and lending to each other using commercial paper, repurchase agreements and similar instruments. These instruments are often benchmarked to (i.e., priced by reference to) the London Interbank Offered Rate (LIBOR) for the appropriate term and currency. Finance companies typically fund themselves by issuing large amounts of asset-backed commercial paper (ABCP), which is secured by the pledge of eligible assets into an ABCP conduit. Examples of eligible assets include auto loans, credit card receivables, residential/commercial mortgage loans, mortgage-backed securities and similar financial assets. Some large corporations with strong credit rating issue commercial paper on their own credit. Other large corporations arrange for banks to issue commercial paper on their behalf.

In the United States, federal, state and local governments all issue paper to meet funding needs. States and local governments issue municipal paper, while the U.S.

Treasury issues Treasury bills to fund the U.S. public debt:

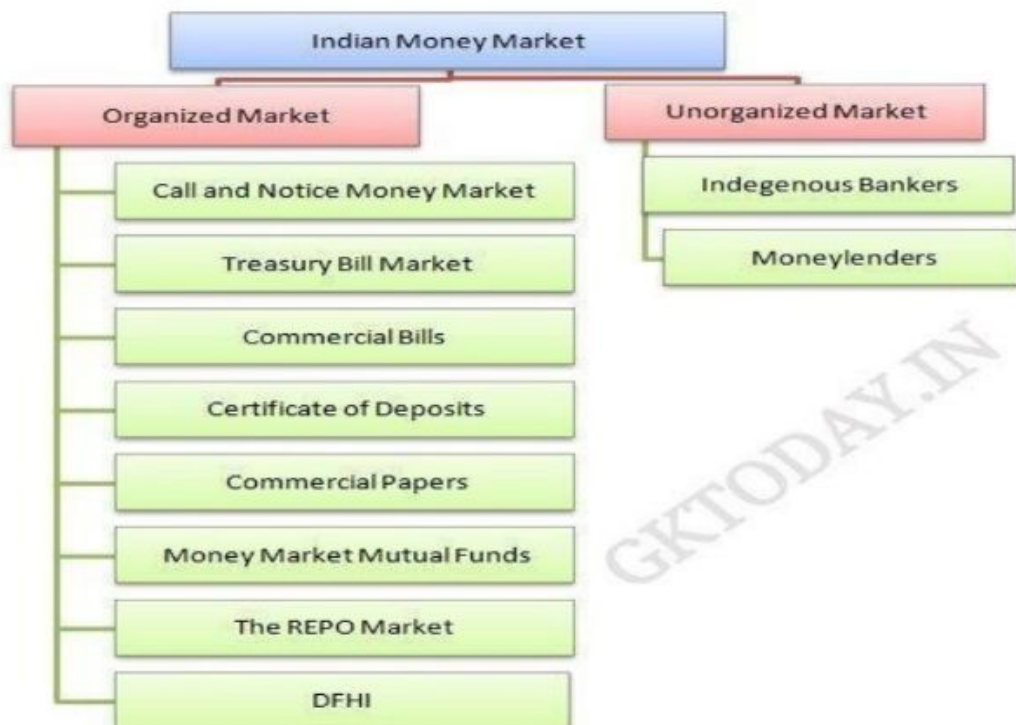
- Trading companies often purchase bankers' acceptances to tender for payment to overseas suppliers.
- Retail and institutional money market funds
- Banks
- Central banks
- Cash management programs
- Merchant bank

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: -

The Indian money market consists of two main sectors: -

1) ORGANISED SECTOR: -

- The RBI is the apex institution that controls and monitors all the organizations in the organized sector.
- Also, the organized money market is composed of various components/ instruments that are highly liquid in nature.
- The instruments traded are call money, treasury bills, commercial bills, certificate of deposits, commercial papers, repos etc.

The organized money market is further diversified with the establishment of the Discount and finance House of India, and Money market Mutual Funds.

The Instruments of the Organized Money Market Are:-



1) CALL MONEY AND NOTICE MONEY MARKET:

- The call money market is the most important segment of the Indian money market. It is also called as inter-bank call money market.
- Under call money market, funds are transacted on an over-night. Generally, banks rely on call money market where they raise funds for a single day.
- The notice money market funds are transacted for a period of 2 to 14 days. The loans are to be repaid at the option of either the lender or the borrower.
- The rate at which funds are borrowed / lent in this market is called the call money rate.
- The main participants in the call money market are commercial banks (excluding RRBs), co-operative banks and primary dealers.
- The Discount and finance House of India and non-banking financial institutions like LIC, GIC, UTI, NABARD, etc., also participate in the call money market.
- Call money markets are generally concentrated in large commercial center like Mumbai, Delhi, Chennai, Kolkata and Ahmadabad.

- The RBI intervenes in the call money market because it is highly sensitive, and it is the indicator of liquidity position in the organized money market.
- The call money rate (that depends on demand for and supply of funds) is highly variable from day to day and from center to centers

ii) TREASURY BILLS MARKET:

- Treasury bills are short-term securities issued by the RBI on behalf of the Government of India.
- Treasury bills are of three types: 91-day treasury bills, 182 days treasury bills and 364day treasury bills.
- Since these bills are issued through auctions, interest rates on all types of treasury bills are determined by market forces.
- Treasury bills are highly liquid and are readily available.
- They give assured yields at a low transaction cost.
- Treasury Bills are eligible for inclusion in the SLR.
- Moreover, they have negligible capital depreciation.
- Treasury Bills are available for a minimum amount of Rs 25000 and in multiples of RS 25000.
- Treasury Bills are traded in the secondary market. Commercial banks, Primary Dealers, Mutual Funds, Corporate, and Financial Institutions, Provident / Pension funds and Insurance companies participate in the treasury Bills Market.
- However, Treasury Bills Market in India is very narrow and undeveloped.

iii) COMMERCIAL BILLS:

A commercial bill is a short- term, negotiable, self-liquidating instrument drawn by the seller on the buyer for the value of goods delivered by him.

- Such bills are called trade bills / bills of exchange and when they are accepted by banks, they are called commercial bills.
- Generally, the bill is payable at a future date (mostly, the maturity period is up to 90 days).

- During this period, the seller may discount the bill with the banks. The commercial banks may rediscount these bills with FIs like EXIM bank, SIDBI, IDBI, etc.
- Thus, commercial bills are very important for providing short-term credit to trade and commerce.

iv) CERTIFICATES OF DEPOSITS: (CDs): -

- Certificates of Deposits are unsecured, negotiable promissory notes issued by commercial banks and development financial institutions.
- CDs are marketable receipts of funds deposited in a bank for a fixed period at a specified rate of interest.
- They are highly liquid and riskless money market instruments.
- CDs were originally introduced in India to enable commercial banks to raise funds from the market.

The RBI has modified its original scheme for CDs. the following are the recent guidelines for the issue of CDs: -

- ELIGIBILITY: CDs can be issued by commercial banks (except RRBs and Local Area Banks) and financial institutions that have been permitted to raise short-term loans by RBI.
- AMOUNT: while banks can issue CDs depending on the requirements, financial institutions can issue CDs within the limit fixed by the RBI.

MINIMUM SIZE: the minimum size of an issue for a single investor is Rs 1 lakh and it can be increased in multiples of Rs 1 lakh.

- DISCOUNT RATE: CDs are issued at a discount to face value. Bank / Financial institutions are free to determine discount rates on floating rate basis.
- INVESTORS: CDs are issued to individuals, corporations, companies, trusts, etc.
- TRANSFERABILITY: CDs are freely transferable by endorsements / delivery. However demitted CDs have to transfer as per specified procedures. There is no lock-

in period for CDs.

- e. **MATURITY:** Commercial banks can issue CDs with a maturity period between 7 days to 1 year. Financial institutions can issue CDs with a maturity period between 1 year to 3 years.

RESERVE REQUIREMENTS: CDs are subject to CRR and SLR since banks have to report CDs to RBI.

- f. **LOANS / BUY-BACK:** Commercial banks / FIs cannot give loans against CDs.

Similarly, they cannot buy-back their own CDs before maturity period.

- g. **FORMAT:** Banks /FIs should issue CDs only in the dematerialized form.

However, investors have the option to seek CDs in physical form.

- Due to absence of a well-developed secondary market in CDs, the size of CD market in India is quite small.

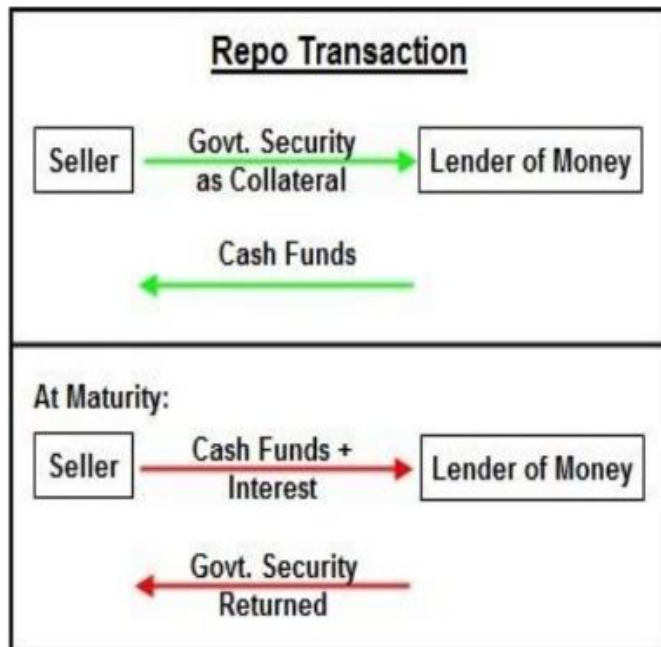
v) **COMMERCIAL PAPERS:**

- Commercial paper is an unsecured, highly liquid money market instrument in the form of a promissory note / a dematerialized form through any of the depositories registered with SEBI.
- It has fixed maturity whereby the purchaser is promised a fixed amount at a future date.
- Commercial papers are issued by leading nationally reputed manufacturing and finance companies (Public / private sector).
- They are issued on a discount to face value.
- Commercial papers are issued (by corporate / primary dealers / all India financial institutions) on the following conditions:
 - a) The tangible net worth of the issuing company should not be less than RS4 crores.
 - b) The working capital limit of the company has been sanctioned by banks /financial institution.
 - c) The borrowable a/c of the company is rated as a standard asset by banks /financial institutions.
- All eligible participants should have a minimum rating P2 from CRISIL.

- Commercial Papers have maturity period between 7days and 1year from the date of issue.
- CPs are issued in denominations of Rs 5 lakhs (minimum) or multiples of Rs5 lakh
- Individuals, banks, corporate bodies, NRIs and FIIs can invest in commercial papers.
- Every issuer must appoint an IPA (Issuing and Paying Agent) for issuance of commercial papers. Only a scheduled commercial bank can act as an IPA.

vi) REPOS AND REVERSE REPOS:

The RBI achieves the function of maintaining liquidity in the money market through REPOS / REVERSE REPOS.



- The repo / reverse repo is a very important money market instrument to facilitate shortterm liquidity adjustment among banks, financial institutions and other money market players.
- A repo / reverse repo is a transaction in which two parties agree to sell and repurchase the same security at a mutually decided future date and price.
- From the seller's point of view, the transaction is called a repo; whereby the seller gets immediate funds by selling the securities with an agreement to repurchase the same at a future date.
- Similarly, from the buyer's point of view, the transaction is called a reverse repo, whereby the purchaser buys the securities with an agreement to resell the same at a future date.

- The RBI, commercial banks and primary Dealers deal in the repos and reverse repo transactions.
- The financial institutions can deal only in the reverse repo transactions i.e. they are allowed only to lend money through reverse repos to the RBI, other banks and Primary dealers.
- The maturity date varies from 1 day to 14 days.
- The two types of repos are:
 - a. Inter-bank repos (the transaction takes place between banks and DFHI).
 - b. RBI repos (The repos / reverse repos are undertaken between banks and the RBI to stabilize and maintain liquidity in the market).
- Repos and Reverse Repos are used for following purposes:
 - a. for injection / absorption of liquidity.
 - b. to create an equilibrium between the demand for and supply of short-term funds.
 - c. to borrow securities to meet SLR requirements.
 - d. to increase returns on funds.
 - e. to meet shortfall in cash positions.

vii) DISCOUNT AND FINANCE HOUSE OF INDIA (DFHI): -

- The Discount and Finance House of India is jointly owned by the RBI, the public sector banks and all India financial institutions.
- The DFHI helps in developing and stabilizing the money market by stimulating activity in the money market instruments and developing secondary market in those instruments.
- The DFHI deals in treasury bills, commercial bills certificates of deposits, commercial papers, short term deposits, call money market and govt securities. It also participates in repo operations.
- Thus, the DFHI has helped corporate entities, banks and financial institutions to invest their short-term surpluses in money market instruments.

- viii) MONEY MARKET MUTUAL FUNDS: (MMMFs):

- The RBI introduced Money Market Mutual Funds to enable small investors to participate in the money market. Thus, MMMFs mobilizes saving of mutual funds and invest them in such money market instruments that mature in less than one year.
- The following are the key features of MMMFs: -
 - a. MMMFs can be set by scheduled commercial banks and public finance institutions.
 - b. Individuals, corporates, etc. can invest in MMMFs.
 - c. the lock-in period has been reduced to 15 days.
 - d. MMMFs are under the regulation of SEBI.
 - e. NRIs and Overseas Corporate Bodies can invest in MMMFs (on an repatriation basis) floated by commercial banks / public sector financial institutions / private sector financial institutions. However, they do not need separate permission from the RBI.

1) UNORGANISED SECTOR:

- The unorganized Indian money market mainly comprises of indigenous bankers, money lenders and unregulated non-banking financial intermediaries.
- Though they may exist in urban centers, their activities are mainly concentrated in rural areas. In fact, 36% of rural households depend on these for their financial requirement.
- The main components of unorganized money market are:

i) INDIGENOUS BANKERS:

- These financial intermediaries operate as banks by receiving deposits, giving loans and dealing in 'hundis' (The hundi is a short-term indigenous bill of exchange)
- The rate of interest varies from market to market / bank to bank.

- However, they do not solely depend on deposits, they may use their own funds.
- They are called by different names like ‘Kathakalis’, ‘Saraf’, ‘Shroffs’, ‘Chetty’s’, etc.
- They provide loans to trade and industry and agriculture.
- The main advantages of indigenous bankers are simple and flexible operations, informal approach, personal contact, quick services and availability of timely funds.
- However, they have their drawbacks like a very high rate of interest (18%to 36%), combining banking with trade, interest in non-banking activities like general merchants, brokers, etc.
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 - k. MMMFs are ideal for investors seeking low-risk investment for short-term surpluses.

ii) MONEY LENDERS:

- Money lenders predominate in villages and they deal in the business of lending money.
- Their interest rates are very high
- Loans are given to agricultural laborer’s, marginal and small farmers, artisans, factory workers, etc. for unproductive purposes.
- Their services are prompt, informal and flexible.

iii) UNREGULATED NON_BANK FINANCIAL INTERMEDIARIES

Chit funds:

- a. They are saving institutions wherein members make regular contribution to the fund.
- b. The fund is given to some member by bids / draws.
- c. Chit funds are famous in Kerala and Tamil Nadu.

#Nidhi's:

- a. They are mutual benefit funds as loans are given to members (from the deposits made by members themselves) at a reasonable rate of interest.
- b. The loans are generally given for purposes like house construction /repairs. Nidhi's are prevalent in South India

Loan companies:

- a. Loan Companies (also called as finance companies) have capital in the form of borrowings, deposits or owned funds.
- b. They attract deposits by offering high rate of interest and other incentives.
- c. Loans are also given at a very high rate of interest (36% to 48% p.a.).
- d. Traders, small-scale industries and self-employed people are the main participants.

iv) FINANCE BROKERS:

- They are found in all major urban markets, especially in cloth market, commodity market and grain market.
- They are intermediaries between lenders and borrowers.

Primary Dealers: -

- The system of Primary Dealers (PDs) in the Government Securities Market was introduced by Reserve Bank of India in 1995 to strengthen the market infrastructure of Government Securities.

- DFHI was set up by RBI in March 1988 to activate the Money Market.
- It got the status of Primary Dealer in February 1996. Over a period of time, RBI divested its stake and DFHI became a subsidiary of State Bank of India (SBI).
- SBI had also set up a subsidiary in 1996 for doing PD business namely SBI Gilts Limited.
- Both these companies were merged in 2004 to become the largest Primary Dealer in the country.
- Primary Dealers can also be referred to as Merchant Bankers to Government of India as only they can underwrite primary issues of government securities other than RBI PDs are allowed the following activities as core activities:
 - 1. Dealing and underwriting in Government securities.
 - 2. Dealing in Interest Rate Derivatives.
 - 3. Providing broking services in Government securities.
 - 4. Dealing and underwriting in Corporate / PSU / FI bonds/ debentures.
 - 5. Lending in Call/ Notice/ Term/ Repo/ CBLO market.
 - 6. Investment in Commercial Papers.
 - 7. Investment in Certificates of Deposit.
 - 8. Investment in debt mutual funds where entire corpus is invested in debt securities.

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 travellers 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.

Owing to the absence of a central bank until 1935, the Imperial Bank of India performed some of the functions of the banker's bank. The other Bank are not bound to keep

balances with it, but in practice the exchange Banks and larger India jointstock banks kept a substantial part of their cash balances with it. The Imperial bank's grant of loans to joint-stock banks against government securities at the bank rate proved very useful to them, but the high bank rate frequently reduced to a considerable extent the benefits of such loan. On account of the special banks concessions that the Imperial bank received from the government and later from the Reserve Bank also, the joint-stock banks have regarded it more as an unfair competitor than as a friendly supporter. Their feeling towards the State Bank was not much better. The exchange banks were also considered as powerful competitors owing to their large resources and encroachment up to the field of the finance of internal trade at ports as well as in the interior. The state co-operative banks used to maintain current accounts with the state bank and also used to get credit and overdraft facilities from it. The co-operative banks have no connection with the indigenous bankers and the moneylenders beyond the fact that a few of them were depositors or directors of central cooperative banks.

There is also not much contact between the indigenous bankers and the moneylenders and both of them usually did not maintain account with the State Bank of India and not at all with the Reserve bank of India (RBI). Till the mid- 1970s, during the busy season (October-April), when the supply of hundis was greater than the resource of the indigenous bankers, a temporary connection was established between a number of them who were selected And placed on the approval list and the State Bank and the joint stock banks rediscounted the hundis drawn and endorsed by the by the approved indigenous bankers up to a certain maximum limits determined according to the financial standing off the financial standing of the banker or gave them advances against demand promissory notes signed by two of them.

(a) Operation of the central or organized part of the money market

These may be considered under the three heads:

(I) The call money market,

- (ii) The bill market, and
- (iii) Other sub-markets (CPs and CDs)

(i) The call money market

Call money market is the core of the central part of the money market, in which banks lend money to each other. To begin with call money operated from Mumbai and later Calcutta, Delhi and Madras joined. The call money is most sensitive part of the money market and indicates the current condition of the market. The major participants are the public-sector banks. Over the period of time, the RBI has permitted other institutions, flush with funds, such as LIC, GIC, UTI, IDBI, NABARD to participate in money market as lenders. The call money transaction is unsecured, enabling the borrowing banks to replenish their funds without touching their other assets. In this market, banks operate with their own surplus funds and usually without any help from outside. Thus, banks with surplus funds lend to those that are in need. This helps in spreading the liquid funds evenly among the various banks and thus enables a more economic use of resources in the banking system.

The role of banks, as a borrowers or lenders, change according to liquidity position. Upto 1956, the exchange banks were the chief borrower because of nature of their business. Their advances were generally very liquid, and they held substantial proportion of bills. As a consequence, they functioned with a fine cash ratio and turned to the call market to make up any deficiency of funds for day or two. Prior to 1956, some of the Indian banks also resorted to the call money market occasionally as a borrower to maintain their cash ratio at the level required by law. However, since 1956, the Indian banks have been resorting to the call money market more frequently whenever the demand upon them for credit owing to increasing investment activity press upon their resources. Hence, the funds now flow more easily and to a substantial extent, not among Indian banks CENTER like Mumbai or Calcutta, but also among various centers.

(ii) The Bill Market

The bill market can be divided into two viz., the commercial bills market and the treasury bills market.

Commercial Bills Market

Bill financing is an important mode of meeting the credit needs of trade and industry in developed economies because it facilitates an efficient payment system being selfliquidating in nature. In India bill financing has been popular since long in ancient "Hundi" form.

The existence of an approved bills market enables rediscounting of bills which is a traditional instrument of credit control. As such, the Indian central Banking Enquiry Committee (1931) had strongly recommended the establishment of a market in commercial bills. But nothing could be done by the Reserve Bank till 1952, on account of the war, the indifference of British Government and the partition of the country.

Banks of India, especially the Exchange Banks, used to discount bills of approved parties fulfilling certain conditions, but there was no discount in the discount market in India, except the limited bills market provided by the Reserve Bank for further dealings in these bills and banks had either to keep them until they matured or rediscount them in London discount market, if they were export bills.

The RBI pioneered effort on developing bill culture in India. It introduced Bill Market Scheme (BMS) in 1952 to provide demand loan against bank's promissory notes supported by their constituent's 90 days usance bills or promissory notes. The bank could also cover part of their advances, loans, etc., into usance promissory notes for lodging with the RBI collateral. The 1952 Bill Market Scheme was however, basically a scheme of accommodation for banks. The scheme was designed to ease the problem of providing temporary finance to commercial banks by the Reserve Bank as a lender of last resort. But it did not succeed in developing a genuine bill market.

Promotion of bill culture, however, remained one of the major concerns of the RBI. Finally, in November 1970, based on the recommendations of Narasimham committee,

RBI introduced Bill Rediscounting Scheme (BRS) also known as New Bill Market Scheme (NBMS) which continues till date in modified form. Under this scheme, all scheduled commercial banks are eligible to rediscount genuine trade bills arising out of sale/purchase of goods with the RBI and other approved institutions.

To promote the bills culture, RBI in March 1988 reduced the discount rate for bills for borrowers from 16.5% to 15.5%. Thereafter, the bills finance has always been subject to one percentage point lower rate of interest than prime lending rate fixed for corporate borrowers. Further, interest rate on rediscounting of bills was deregulated in May 1989.

Treasury Bills Market

In addition to internal and foreign trade bills, banks deal in Treasury Bills. As they are issued at a discount by the Government of India or State Government and are repayable usually after three months, banks regard them as a very suitable form of investment for their own surplus fund. Most of them have been issued by Government of India. During the First World War, they were issued to meet government's disbursements on behalf of British War Office. During the post-war period, they were issued to meet budget deficits and to repay old bills. Later, they have been issued to provide ways and means of current and capital expenditure, repayment of old bills and conversion of loans. During the Second World War, they were issued to provide in enormous amounts for the same purpose as the First World War.

Tenders for them are invited by government notification and are received by the office of Reserve Bank. The tenders quoting the lowest discount are accepted and the bills are issued and paid by the offices of the Reserve Bank. In addition, intermediate Treasury Bills are sold sometime at a rate. At least 90% of the tenders and purchases are made by few big banks and nearly half of these by the State Bank alone. This makes government in India dependent upon a few banks, whereas in London, large funds which do not belong to banks are invested in Treasury Bills and enable Government there to secure more favorable rates. Consequently, the Reserve Bank sometimes had to intervene and purchase Bills on its own account.

The Reserve Bank has tried to organize and widen the Treasury bill market, in order to secure better control of the money market, with the rediscounting of the bills with itself and to enable the market to carry a large floating debt and thereby reduce the cost of Government borrowing. The efforts of the Reserve Bank in widening the Treasury bill market have not succeeded fully until the late 1980s, owing to the absence of a discount market in these bills. Banks were reluctant to discount Treasury bill with the Reserve Bank because the money market regarded such discount as a sign of weakness. This led to funds being locked in and market elasticity was not there in case of Treasury bill. Sales of treasury bills were suspended from 20th April 1954 to 2nd November 1954 and from 6th April 1956 to 1st August 1958. However, since 1970s, the treasury bills were issued at a fixed rate of 4.6% and were for tenure of 91 days. However, with the setting up of the Discount and Finance House of India (DFHI) in 1988, the secondary market for the treasury bills began to develop.

Other Sub-markets

The other important sub-markets that have come into existence in the money market are the Certificate of deposits (CDs) market and the Commercial Papers (CPs) market. These sub-markets are of recent origin. While the CDs market becomes operational during 1989-1990, the CPs market emerged in 1990-91.

Certificate of Deposit (CDs)

The CDs are basically deposit receipts issued by a bank to the depositor. In India the Tambe Working group in 1982 was the first one to evaluate the introduction of CDs in the money market. The group, however, did not recommend introduction of CDs on the ground of inherent weakness viz. (i) absence of secondary market, (ii) administered interest rate on bank deposits, and (iii) danger of giving rise to fictitious transaction. The VAGHUL Working Group in 1987 also discussed at large the desirability of launching this instrument. The working group was of the view that developing CDs as money market instrument would not be meaningful unless the short-term deposit rate is aligned with other rates in the system. As such, it did not recommend introduction of CDs. The

group, however, noted the importance of CDs and recommended feasibility of introduction of CDs after appropriate changes at a later date.

Commercial Papers (CPs)

The CPs as an instrument are unsecured usance promissory notes issued by the corporate borrowers with fixed maturity evidencing their short-term debt obligation.

In India, VAGHUL Working Group 1987 was the first to recommend introduction of CPs in Indian money market.

It noted that CP market has an advantage of giving highly rated corporate borrowers cheaper funds while providing investors higher interest earnings.

Though the banks would lose some of their first rated borrowing clientele and consequently interest income they can supplement their earning by acting as issuers and dealers of commercial papers.

Accordingly, the working group recommended the launch of CPs and suggested a scheme for issue of CPs.

The Bazaar Part: -

Important cogs in the evolution of the Indian money market evolution of the Indian Money Market are the indigenous institutions. Although, nidhis and chit funds exist, they are not important or money market as such they absorb funds that might otherwise fed into banking system.

A more obvious money market institution was the Multani shroff. Formerly, and indeed into 1960s and the early 1970s, the Multani shroff lent money to customer by discounting a hundi (which was originally in promissory note form) and then, after endorsement and by arrangement through a hundi broker, rediscounted with a schedule bank up to limits agreed upon. Although Multani shroffs have survived as a part of the indigenous sector, their clan is readily declining and expected to become extinct.

Discount and Finance House of India (DFHI) AND SECURITIES Trading Corporation of India (STCI)

A very significant step in evolution of the Indian money market has been setting up of the DHFI and the STCI. As a sequel to the recommendations of the Working Group of the money market, the Discount and Finance House of India was set up by the RBI jointly with the Public-Sector Banks and all-India financial institutions to deal in money market instruments. DHFI was incorporated on March 8, 1988 under the Companies Act, 1956 with an authorised share capital of Rs. 100 crores subscribed by the RBI (Rs. 33 crores) and all-India financial institutions (Rs 16 crores).

DHFI quotes regular bid and offer rates for treasury bills and commercial bills rediscounting. However only bid prices for CDs and CPs are normally quoted. DHFI is also authorized to undertake "REPO" transaction against treasury bills and it provides daily buy back and sell back rates for treasury bills to suit their requirements of commercial banks.

The STCI is of recent origin. Basically, set-up for dealing in government securities market to broaden and deepen this market, the STCI also has been allowed to deal in call money market and the treasury bills market.

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.

Integration of Markets

The other important aspect of the fixed income market is the close inter-linkage between the money and debt segments. The Call, Notice & Term money markets are to be made purely inter-bank markets. The non-bank participants are being shifted to the Repo market. However, the existing players have been allowed to park their short-term investments till they find other avenues. The corporates have the facility of routing their call transactions through the PDs.

Primary Dealers

In order to make the government securities market more vibrant, liquid and to ensure market making capabilities outside RBI a system of PD's was established. The PDs have been allowed to operate a current account and along with an SGL account. They also have been allowed to open constituent SGL accounts. RBI has provided them liquidity support facility.

In order to facilitate their continued presence in auctions the RBI invites bids for underwriting in respect of all auctions. Routing of operations in the call money market is allowed through PD's. They are allowed the facility of funds from one center to another under RBI's Remittance facility scheme. The number of PDs has been increased from 7 to 13. Infact the introduction of PDs has added to the liquidity in the market. Valuation of securities

Banks have been required to mark 70% of their portfolio to market from the year 1998-99 and 75% from 1999-2000.

Foreign Institutional Investors (FIIs)

FIIs have been allowed to trade in T. Bills within the overall debt ceiling. They now have access to all type's debt instruments. Developments in the Money Markets

Call/Notice Money Market: -

As per the suggestions of the NARISHIMAN Committee II, the RBI in the Mid-Term Review of October 1998 that it would move towards a pure inter-bank call/notice/term

money market, including the PDs. Towards this end the non-bank participants can invest their short-term resources in the Repo market and other money market instruments.

Taking into consideration the transitional problems, it has also been decided to continue with the present system of permitting FIs and MFs to lend in the call/notice money market. The corporates can route their call/notice money transactions through the PDs.

Term Rate: -

Inter-bank CRR, other than minimum 3% has been done away with. In this direction the Interest Rate Swaps (IRS) have been introduced for the participants to hedge their interest risks.

For benchmarking we have the 14, 91 & 364 T. Bills. Also, we have the CPs. Now it is to the participants to use this opportunity.

Money Market Mutual Funds (MMMFs): -

Many Mutual Funds have started funds which specifically focus on money market. They have also been permitted to invest in rated corporate bonds and debentures with a residual maturity of up to only one year, within the ceiling existing for CP. Repos and Reverse Repos

Non-bank entities, which are currently permitted to take Repos, have been permitted to borrow money through reverse Repos at par with banks and PDs. There is no restriction for the duration of a Repo. All government securities have been made available for Repo. The Repos have also been permitted in PSU bonds and private corporate debt securities provided they are held in demat form in a depository and the transactions are done in recognized stock exchanges.

Needs for imbining depth to the market

Diversifying investor base

Active participation by a number of investor segments, with diverse views and profiles, would make the market more liquid. In order to attract retail investors there is need to exempt the interest income from income tax. The mutual funds are expected to take the markets in a big way.

Settlement system reforms

In the settlement and transfer of wholesale trades, though DVP settlement has been introduced, inter-city settlement continues to be a problem. It is not possible to buy and sell a security on the same day as transactions are settled on a gross basis and short selling is not allowed. The RBI plans to introduce the Real Time Gross Settlement (RTGS), which will add efficiency.

Transparency

Development of technology is an integral part of reforming the debt market, especially in the context of providing a technologically superior dealing and settlement system. Hence the RBI has embarked upon the technological upgradation of the debt market. This includes screen-based trade reporting system with the use of VSAT communication network complimented by a centralized SGL accounting system.

It shall also facilitate logging bids in auctions of dated securities and T-bill's. This will broaden the participation in the auction system.

The participants would be required to provide two-way quotes. It is also believed that the screen would have a chat line mode. The system will be integrated with the regional current account system. Nothing seems to have been finalized as of now. Anyway, this system may not really be effective enough to substitute the telephonic mode of operation. The system as has been planned does not provide for a participant to withhold his identity. Now this factor alone could lead to inefficiencies in Price discovery, as in the case of a major participant having to reveal his buy/sell interest.

In fact, the market participants seem to be divided over this issue.

Some believe that the system as planned is proper while many others believe that there would be no significant improvement. Anyway, the RBI seems to have decided to eliminate the brokers from the system.

This would remain an interesting debate as the NSE members/brokers not willing to believe that they would be out of the system after having paid the NSE fees. About this system the market seems to be divided. RBI would like the market to be free of intermediaries (brokers). The banks feel that the brokers would remain. The brokers maintain that this system would not lead to the best price discovery. It is not very wise for the participants to release their identity and interest.

Short selling

The participants feel that this would add to the depth of the market and also help in providing two-way quotes. However, it is not evident whether the RBI will be allowing this. Primary dealers

The banks maintain that with all the benefits provided to them they should be providing fine two-way quotes at market rates. For this the PDs feel that it is essential to allow the short selling of securities and that every participant provides a two-way quote.

Awareness

The government along with the RBI has decided to do some publicity work.

Retailing of government securities

Since the beginning of the reforms it has been recognized that a strong retail segment for government segment needs to be developed.

The basic objective of setting up of primary and Satellite Dealers was to enhance distribution channels and encourage voluntary holding of government securities among a wider investor base. To give a fillip to this scheme for availing of liquidity support from RBI has been made available to them.

Now banks are allowed to buy or sell freely government securities on an outright basis and retail government securities to non-bank clients without any restriction on the period between sale and purchase.

The big question is whether the banks would actually take interest in the task, as this will affect their deposits. Towards this end there is the need for introducing STRIPS. Further to enable dematerialization of securities of retail holders, institutions such as NSDL, SHCIL, and NSCCL have been allowed to open SGL accounts with RBI.

SD's have also been extended the facility of Repo transactions since March 1998.

Market Microstructure: -

To develop the primary and the secondary markets the following points need careful evaluation

1. At present the PDs underwrite a sizeable portion of the market loans and quote an underwriting commission. It has been suggested that it be made compulsory for them to bid for a minimum percent for a minimum percent of the notified amount. By increasing the number of PDs, the total bids should be brought up to 100% of the notified amount.
2. The RBI should try and move out of the primary auctions but in transition could take up to 20% of the notified amount. In case of the issue being not fully subscribed the RBI should have the option of canceling the entire issue.
3. Gradually the RBI should move out of the 14- and 91-day T. Bill auction and then the 364-day auction and then finally from the dated of securities.

The RBI should have a strong presence in the secondary market by means of providing two -way quotes.

Standardization of Practices: -

Standard practices in the market need to be evolved with regard to the manner of quotes, conclusion of deals, etc. It has been proposed that the Primary Dealers Association and FIMMDSI quickly setup a timeframe for CP. The minimum the documentation and market practices, minimum the lock in period.

If needed RBI will come forward and indicate a time frame. Most importantly the code of conduct will have to be compatible with the contemplated dealing screen and the technological upgradation.

Risk Management: -

Investors in debt instrument face three major types of risks namely credit risk, interest rate risk and foreign currency risk. In case of the government securities the credit risk is zero. For the domestic investors the foreign exchange risk is none. Investment in all debt instruments is exposed to interest rate risk. Introduction of rupee derivatives will go a long way in providing investors an opportunity to hedge their exposures. IRS and FRA have already been introduced. Also, there is a need for the dealers (especially in PSU banks) to be provided with more freedom to make decisions. Finally, it remains on the willingness of the participants to trade. This indeed would provide the needed fillip to the market.

OBSTACLES TO DEVELOPMENT OF IRS IN INDIA

When we talk of IRS, we are actually referring to derivatives based on underlying instruments, which are linked to interest rates. Now, for a good derivatives market for any underlying instrument, the market for that instrument should be well developed, mature and competitive. However, in India, we do not have a very mature and competitive money market, especially the term money market and the floating rate loan market. Thus, the derivatives based on these instruments are bound to be far and few. Moreover, India does not even have a very good inter-bank rate measure for different parties, which are acceptable to all parties. Then, risk management systems are almost non-existent in most corporate. These and other obstacles in development of the IRS market have been discussed in greater detail below.

- Non-availability of an acceptable Benchmark rate □ Lack of A Developed Term-Money Market □ Lack of Active Market for Floating Rate □ Loans
- Nonavailability of a variety of acceptable Yield Curves □
- Participants' Inertia and Small Banks □ Lack of Awareness □ Reluctance on Part of Small Corporates

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PRESENT SCENARIO OF THE INDIAN MARKET: -

Money markets throwing up some interesting opportunities

The foreign currency borrowing rates are rising alongside Indian debt capital market rates.

Updated on Jun18 (2018)

The last fortnight was full of market action in anticipation and subsequent follow up action on the announcement of the periodic data globally.

In its bimonthly money policy review, RBI increased the policy signalling repo rate by 25 basis points to 6.25 per cent. India also announced retail as well as wholesale inflation numbers for May on June 12 and 14, respectively, together with trade data and index of industrial production. While IIP numbers did not enthuse the market despite a favourable base effect, the two indices for retail and wholesale inflation (CPI and WPI) were very much on lines of market expectations.

The rate of growth of exports has improved significantly and registered an impressive reading of 20.2 per cent year-on-year with the absolute figure touching \$28.86 billion.

However, imports showed a robust growth too, at 14.9 per cent, with oil imports alone growing 49.5 per cent, which resulted in a higher trade deficit of \$14.62 billion for the month, a figure not witnessed in the recent past. If the same trend continues, trade deficit may again cross the \$160 billion mark, and the current account deficit may cross 2.5 per cent of GDP.

Though the ratio (CAD) is not that alarming, the trend certainly is. Hence the need for greater push to increase exports. This may partly be helped by the recent depreciation in the Indian rupee vis-a-vis USD. The pair has already gained more than 7 per cent since the first week of January when the rupee was trading at 63. RBI continued to arrest volatility and the result showed clearly in the depletion of forex reserves since the beginning of this financial year. Forex reserves touched their peak in the first week of April at more than \$426 billion and it has gradually slipped ever since to touch \$412

billion on June 1, 2018. Data for the week ended June 8 showed growth after six weeks, of nearly \$880 million week on week (w-ow) to reach nearly \$413 billion.

The fall in forex reserves was caused mainly by the forex interventions to stem a steep fall in the rupee while arresting high volatility, though some amount of fall can also be attributed to revaluation of reserves held in currencies other than USD. On the global front, FOMC decided to raise the Fed fund target rate by 25 basis points to a new range of 175 to 200 basis points with the commentary suggesting 2-3 more hikes of 25 basis points each within this calendar. The European Central Bank has also hinted at total withdrawal of accommodation in the near future. This has impacted the availability of foreign currency funds for Indian corporates in global markets.

The foreign currency borrowing rates are increasing alongside Indian debt capital market rates. These developments have resulted in credit demand on Indian banks from the corporate side for new capacity creation and for refinancing foreign currency loans through rupee sources. The USD-INR pair is thus expected to remain elevated at 67.50-68.50 levels in the coming weeks.

The combined effect of the increase in 'currency in circulation' and forex intervention has resulted in a sharp drop in rupee liquidity. All through this quarter, money market rates have remained high, which in normal course falls after March. Certificates of deposit (CDs) issued by some of the large private sector banks to raise wholesale deposits crossed 8 per cent mark against the pre-March levels of 6.25-6.75 per cent while the policy signalling repo rate just moved from 6 per cent till June 6 to a postpolicy rate of 6.25 per cent. Such a spread is normally seen in an acute liquidity-deficit condition, which is not the case in the current scenario.

It appears that credit-chasing banks (mainly private players) have been short of liquidity, while liquidity-surplus banks (primarily PSBs) are not pushing credit growth for obvious reasons, like imposition of PCA (prompt corrective action) processes. The credit- deposit ratio for all scheduled commercial banks (ASCBs) remained below the optimal level at 75.14 per cent on May 25, 2018 (source: RBI WSS 15/08/2018). The year-on-year (y-o-y) absolute growth in deposits at Rs 8.975 lakh crore was lower than credit growth of Rs 9.945 lakh crore reported for the same period last year, resulting in an incremental credit

-deposit ratio of 111 per cent over last one year. This phenomenon has pushed deposit rates of banks northward, ultimately lifting marginal cost lending rate (MCLR). The liquidity conditions are expected to remain tight and, therefore, the possibility of more OMO purchase auctions is not ruled out. There is a possibility of private placement of G-secs and corporate securities with FPIs, for whom the holding conditions were relaxed recently. The sovereign 10-year benchmark security is trading in the 7.85-7.95 per cent range currently. Looking at the demand- supply dynamics and liquidity conditions, the benchmark yield is likely to remain elevated and trade in current range.

The yield curve has flattened a bit and the shorter end continues to climb higher than the longer segment with the expected rate actions by RBI. The new fortnight is unlikely to throw up any surprise and may just extend the current phase and, therefore, the markets are expected to remain rangebound.

Chapter 2

Review of Literature: -

Reuters (2009) Article: *India call money ends near reverse repo rate, cash abundant.* India overnight money rates brought down to the reverse repo rate of 3.25% on Wednesday these cash surplus in the system will help the banks meet their reserve needs comfortably. Cheaper money usable at the security borrowing and lending agreement (CBLO) also reduce the pressure on the inter-bank cash rates. On that day banks were guided to report their position to RBI once in two weeks. This alteration created an expectation on liquidity resistance. And some analysts said that the central bank may start rolling back the liquidity as early as on December 2009, as they already pressured the consumer prices could pose significant inflationary threat to the economy, in the thick of easy cash conditions Overnight rates are supported around the reverse repo rate because banks holding the surplus funds could also break up with the same central bank at that rate in its daily liquidity adjustment auctions.

Rastogi Nikhil (2008) Article: *Money Market Integration in India: A Time Series Study* Says that Indian financial markets have achieved much from the highly controlled preliberalization 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.

The rates are mainly taken for the purpose of the study of, the compound call market rate, CD (Certificate of Deposit) rate, CP (Commercial Paper) rate, 91-day T-bill (Treasury bill) rate and 3-month forward premium.

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

It has absolute implications on the monetary policy of the Reserve Bank of India. (RBI) since the changes in one market (gilt market) can be used to coordinate the other market (forex 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. The major findings were: (I) various sector of the financial market in India have achieved market efficiency,

- (ii) the 91-day Treasury bill rate is the suitable 'base rate' of the financial sector in India,
- (iii) the financial markets in India are broadly integrated at the short-end of the market, and
- (iv) the long- end of the market is amalgamate with the short-end of the market. From the above monetary policy should rely more on interest rate and asset price channels to control inflation.

Recommendations of Three Committees: -

The issue of whether non-bank participants should constitute part of call/notice/term money market could be traced first in the Report of the Committee to Review the Working of the Monetary System (Chairman: S. Chakravarty) in 1985. Since then, the Report of the Working Group on the Money Market (Chairman: N. Vague) in 1987 and the Report of the Committee on Banking Sector Reforms (Chairman: M. Narasimha) in 1998 had also deliberated on this issue. It needs to be appreciated that the particular set of recommendations from these three Committees have to be assessed against the specific

objectives for which these Committees had been constituted as well as the differing initial conditions reflecting the state of Indian financial market which were prevailing at that particular point of time.

SUKHMOY Chakravarty Committee (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. They felt that allowing additional nonbank participants into the call market would not dilute the strength of monetary regulation by the RBI, as resources from non-bank participants do not represent any additional resource for the system as a whole, and their participation in call money market would only imply a redistribution of existing resources from one participant to another. In view of this, the Chakravarty Committee recommended that additional nonbank participants may be allowed to participate in call money market.

The VAGHUL Committee (1990) *Articles: - Introduction of money market instruments.* The VAGHUL Committee (1990), while recommending the introduction of a number of money market instruments to broaden and deepen the money market, recommended that the call markets should be restricted to banks. The other participants could choose from the new money market instruments, for their short term requirements. One of the reasons the committee ascribed to keeping the call markets as pure inter-bank markets was the distortions that would arise in an environment where deposit rates were regulated, while call rates were market determined.

NARASIMHAN Committee (1998) *Articles: - observation on call/money/term money market* examined the NARASIMHAN 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. It, however, felt that exception should be made for Primary Dealers (PDs) who have been acting as market makers in the call money market and are formally treated as banks for the purpose of

their inter-bank transactions and, therefore, they should remain as part of call money market.

With regard to non-banks, it expressed concern that these participants "are not subjected to reserve requirements and the market is characterized by chronic lenders and chronic borrowers and there are heavy gyrations in the market". It felt that allowing non-bank participants in the call market "has not led to the development of a stable market with liquidity and depth and the time has come to undertake a basic restructuring of call money market". Like the VAGHUL Committee, it had also suggested that the non-bank participants should be given full access to bill rediscounting, Commercial Paper (CP), Certificates of Deposit (CDs), Treasury Bills (TBs) and Money Market Mutual Funds (MMMFs) for deploying their short-term surpluses.

Kotter and Mosser (2002) Articles: - The Monetary Transmission Mechanism: Some Answers and Further Questions, examined the Monetary policy's effect appears to be somewhat weaker than they were in past decades. Financial Innovation is one possible cause of this change but not the only one improved inventory management and the conduct of monetary policy itself are others. Thank to financial innovation and institutional changes in housing finance the housing sector is no longer on the leading edge of the transmission mechanism. However, judging from the evidence presented for the United Kingdom, the role of housing assets on households' balance sheets warrants further study. Neither financial consolidation nor the shrinking reserve volume appears to be a major factor affecting monetary transmission—at least not yet.

Some loose ends and lacunae remain, however.

First, although monetary policy seems to have retained its effectiveness, the economy's sensitivity to interest rates remains an open question.

DR. Y.V. Reddy (2002) Article: - Parameters of Monetary Policy in India attempted to focus on the conduct of monetary policy and highlighted some of the immediate tasks. In case, there is interest in an overview of theory and analytics, especially in the context of role of monetary policy in revitalizing growth in India. The conduct of monetary policy in India would continue to involve the constant rebalancing of objectives in terms of the

relative importance assigned, the selection of instruments and operating frameworks, and a search for an improved understanding of the working of the economy and the channels through which monetary policy operates. Among the unrealized medium-term objectives of reforms in monetary policy, the most important is reduction in the prescribed CRR for banks to its statutory minimum of 3.0 per cent. The movement to 3.0 per cent can be designed in three possible ways, viz., the traditional way of pre-announcing a time-table for reduction in the CRR; reducing CRR as and when opportunities arise as is being done in recent years; and as a one-time reduction from the existing level to 3.0 per cent under a package of measures. The Reserve Bank influences liquidity on a day-to-day basis through LAF and is using this facility as an effective flexible instrument for smoothening interest rates. The operations of non-bank participants including FIs, mutual funds and insurance companies that were participating in the call/notice money market are in the process of being gradually reduced according to pre-set norms. Such an ultimate goal of making a pure inter-bank call money market is linked to the operationalization of the CCIL and attracting non-banks also into an active *repo* market. The effectiveness of LAF thus will be strengthened with a pure inter-bank call/notice money market in place coupled with growth of *repo* market for non-bank participants.

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. This adversely affects the attractiveness of a product/instrument. In the case of savings bank deposits, its interest rate has remained unchanged at 3.5 per cent since March 1, 2003 even as the

Reserve Bank’s policy rates and call rates (representing a proxy for operative policy rate as at a time, only one rate – either the repo rate or the reverse repo rate – is operative depending on liquidity conditions) moved significantly in either direction. Regulation of savings deposits interest rate has not only reduced its relative attractiveness but has also adversely affected the transmission of monetary policy. For transmission of monetary policy to be effective, it is necessary that all rates move in tandem with the policy rates. This suggests that regulation of the interest rate on savings deposits has impeded the

monetary transmission and that deregulation of interest rate will help improve the transmission of monetary policy. In sum, deregulation of savings deposit interest rates has both pros and cons. Savings deposit interest rate cannot be regulated for all times to come when all other interest rates have already been deregulated as it creates distortions in the system. International experience suggests that in most of the countries, interest rates on savings bank accounts are set by the commercial banks based on market interest rates.

Deepak Mohanty (2011) Article: - Monetary Policy Response to Recent Inflation in India trying to prove the relation between the Policy framed by the reserve bank of India and the Inflation situation in the country. India, though initially somewhat insulated from the global developments, was eventually impacted significantly by the global shocks through all the channels – trade, finance and expectations channels. In response, the Reserve Bank swiftly introduced a comprehensive range of measures to limit the impact of the adverse global developments on the domestic financial system and the economy. The Reserve Bank, like most central banks, took a number of conventional and unconventional measures to augment domestic and foreign currency liquidity, and sharply reduced the policy rates. In a span of seven months between October 2008 and April 2009, there was unprecedented policy activism. For example: (i) the repo rate was reduced by 425 basis points to 4.75 per cent, (ii) the reverse repo rate was reduced by 275 basis points to 3.25 per cent, (iii) the cash reserve ratio (CRR) of banks was reduced by a cumulative 400 basis points of their net demand and time liabilities (NDTL) to 5.0 per cent, and (iv) the total amount of primary liquidity potentially made available to the financial system was over 5.6 trillion or over 10 per cent of GDP. As growth took hold and inflation became more generalized, monetary policy response was strengthened. Initially, monetary transmission was weak as systemic liquidity was in surplus. But once liquidity turned into deficit in July 2010, monetary transmission improved.

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 introduced the money market and broadened the instrument of money market. The money market is usually for short-term period i.e. less than one year.

THE NARIASHIMAN Committee studied the observation of call and term money.

Interest is collected periodically by the depositor by depositing.

Because of change in RBI regulation there is change in 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 initiates the same. Therefore, it figures as an important part of the study. This chapter focuses on the design and research method utilized in the study. In addition, the procedure followed to collect, capture, process and analyze data is presented. The research approach used in the study is presented below: -

Sample Unit: -

Sample size determination is the process of choosing the number of respondents/observations to include in a statistical sample. It is an important feature of a research study because on the basis of sample size data is collected and interpreted to give accurate and appropriate results.

The correct and appropriate sample size is said to give more accurate results. For example, in a census, data is collected from the entire population. Therefore, the sample size is equal to population of the country. Keeping in mind the rate of non-response and non-availability of respondents, the sample size was taken between 25 – 50 science students of Mumbai University. It was Random sampling method that was considered to decide the sample size.

Due to the sample size being small there may be slight inaccuracy of data that can be rectified by further 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.

Sampling Objective: -

The objectives are designed to have a particular direction to the study like what aspect of the topic is going to be studied. A topic can be studied from various parameter, the objectives designed for a project gives an idea that in what manner the topic is studied, what is the flow of project, what are the variables selected for the project, etc.

-To find out individual investors for the age group of 18-55 years.

Sampled size: -

Sample size determination is the process of choosing the number of respondents/observations to include in a statistical sample. It is an important feature of a research study because on the basis of sample size data is collected and interpreted to give accurate and appropriate results.

The correct and appropriate sample size is said to give more accurate results. For example, in a census, data is collected from the entire population. Therefore, the sample size is equal to population of the country. Keeping in mind the rate of non-response and non-availability of respondents, the sample size was taken between 25 – 50 science students of Mumbai University. It was Random sampling method that was considered to decide the sample size.

Due to the sample size being small there may be slight inaccuracy of data that can be rectified by further study. **(100 respondents)**

SAMPLE DESIGN: -

The sample design used to represent the survey data is in the form of Pie-Charts and Bar Charts based on the 80 respondents of the survey. Probability sampling was used to collect responses.

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 source of data collection is assessed to gain information and knowledge about our research problem that may be previously discussed by some other researcher. The secondary is referred to know what has already been discussed and what more scope can be there for research.

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.

Hypothesis: -

Hypothesis is referred as the presumption made by an individual to study the research project. These presumptions are made in a way to satisfy the objectives framed for the projects. Framing of hypothesis is a research as in this step the research problem or the problem statement is designed on which the entire research is based.

The hypothesis or the research problem of the study is designed in such a manner to find out the relationship between the variables, i.e. does the effect has any impact on the other. We can also say that the following hypothesis will let us know how closely they are correlated with each other.

H0: - past prices are not reflected on present prices.

H1; - Past prices are reflected on present prices.

H0: - it has no impact on economy growth.

H1: - it has impact on economy growth.

H0: - overcome the short-term deficit.

H1: - overcome the short-term deficit.

Ho: - there is no flow of liquidity in the market.

H1: - there is flow of liquidity in the market.

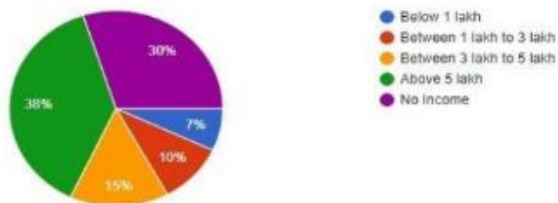
Chapter 4

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 5 lakhs	15	15%
4	Above 5 lakhs	38	38%
5	No income	30	30%



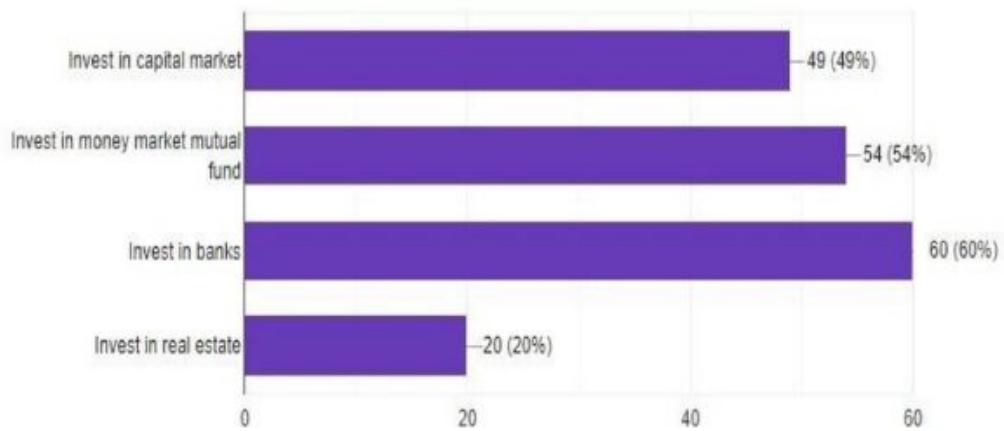
Interpretation: -

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%

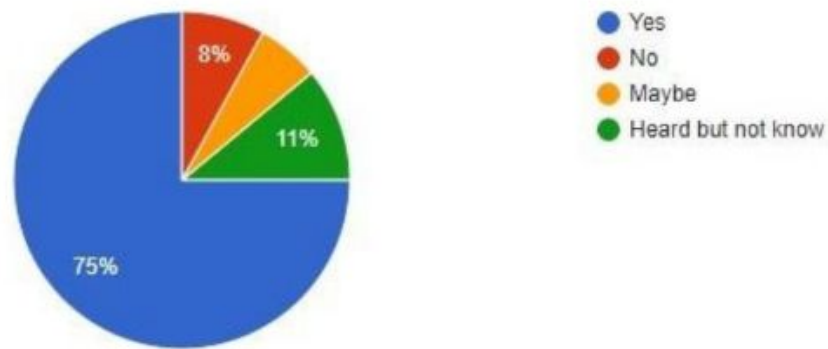


Interpretation: -

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%

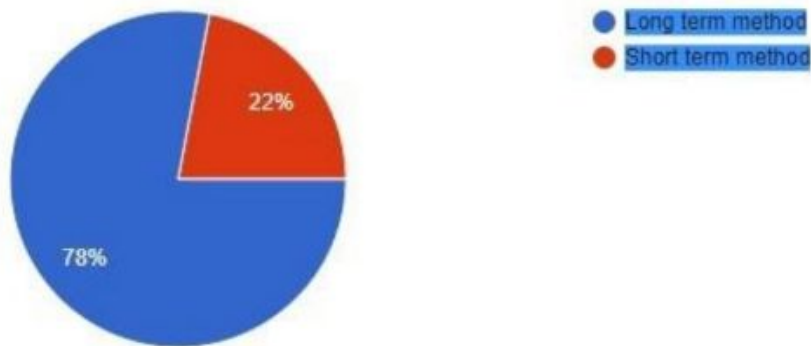


Interpretation: -

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%



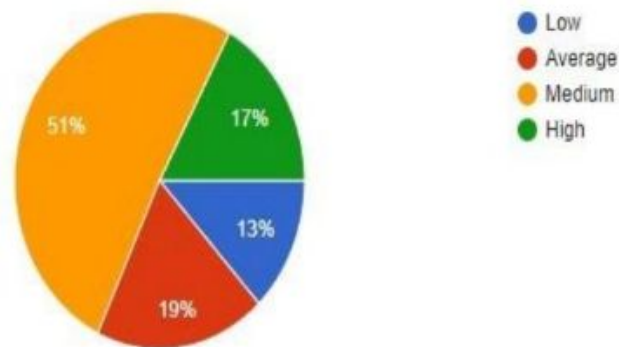
Interpretation: -

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%

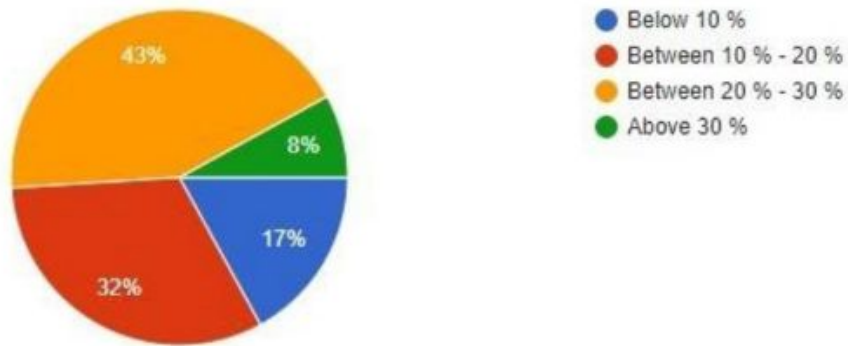


Interpretation: -

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) In your opinion what is your expected rate of return?

SR NO	PARTICULARS	FREQUENCY	PERCENTAGE
1	BELOW 10%	17	17%
2	BETWEEN 10 TO 20%	32	32%
3	BETWEEN 20 TO 30%	43	43%
4	ABOVE 30%	8	8%

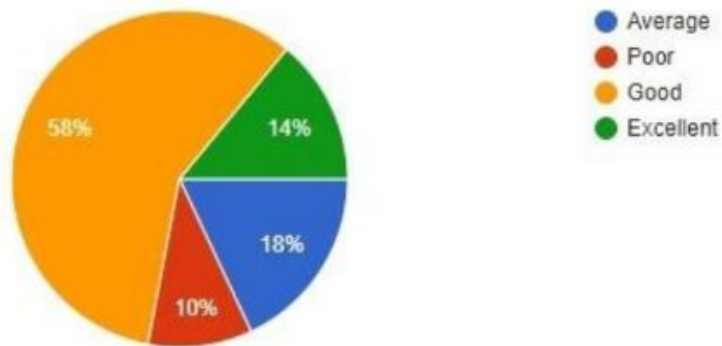


Interpretation: -

From the above data we can see that 17% respondents expect returns below 10%. 32% respondents expect Returns between 10%-20%. 43% respondents expect returns between 20%-30%. 8% respondents expect returns above 30%.

7) 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%

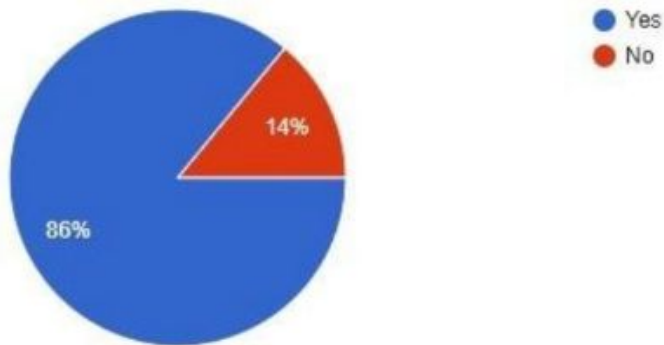


Interpretation: -

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.

8) Is recession had affected your investment decision?

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



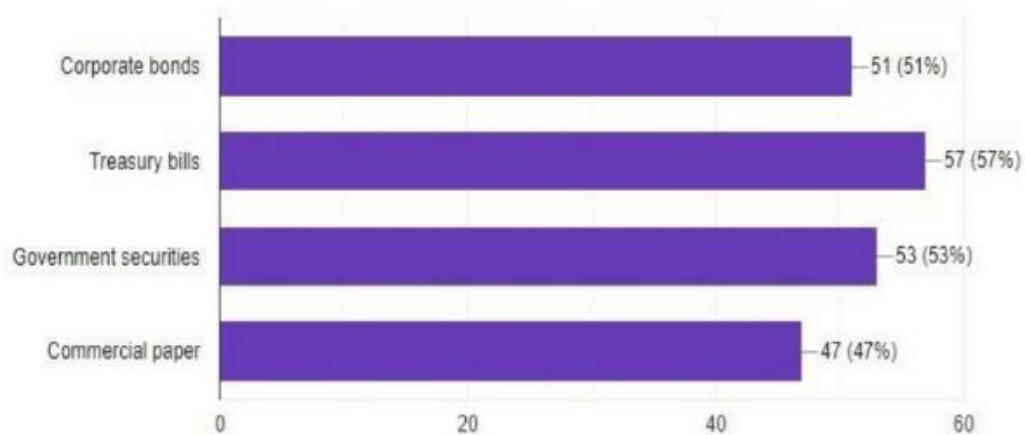
Interpretation: -

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

9) 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%

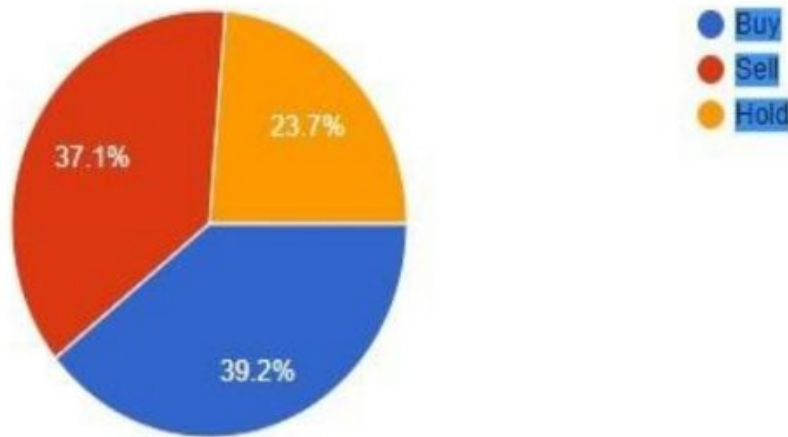


Interpretation: -

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.

10) What will be your course of action during recession?

SR NO	PARTICULARS	FREQUENCY	PERCENTAGE
1	Buy	39.2	39.2%
2	Sell	23.7	23.7%
3	Hold	37.1	37.1%



Interpretation; -

From the above analysis we can see that 39.2% of the respondents buy the instruments at the time of recession,

37.1% of the respondents sells the instruments, and 23.7% of the respondents hold the instruments

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 shortterm 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