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Financial Markets in India: Analysis and Overview

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ABSTRACT: The Money market in India is a correlapowkdotion for short-term funds with maturity ranging from overnight to one year in India including financial instruments that are deemed to be close substitutes of money.[1] Similar to developed economies the Indian money market is diversified and has evolved through many stages, from the conventional platform of treasury bills and call money to commercial paper, certificates of deposit, repos, forward rate agreements and most recently interest rate swaps[2]

The Indian money market consists of diverse sub-markets, each dealing in a particular type of short-term credit. The money market fulfills the borrowing and investment requirements of providers and users of short-term funds, and balances the demand for and supply of short-term funds by providing an equilibrium mechanism. It also serves as a focal point for the central bank's intervention in the market.

KEYWORDS: financial, market, india, funds, interest, rate, market, agreements, rate

I. INTRODUCTION

The influence of the Reserve Bank of India's power over the Indian money market is confined almost exclusively to the organised banking structure. It is also considered to be the biggest regulator in the markets. There are certain rates and data which are released at regular intervals which have a huge impact on all the financial markets in INDIA. The unorganised sector, which consists mostly of indigenous bankers and non-banking financial companies, although occupying an important position in the money market have not been properly integrated with the rest of the money market.[3] National Stock Exchange of India Limited (NSE) is one of the leading stock exchanges in India, based in Mumbai. NSE is under the ownership of various financial institutions such as banks and insurance companies.[3] It is the world's largest derivatives exchange by number of contracts traded[a] and the third largest in cash equities by number of trades[b] for the calendar year 2010.[4] It is one of the largest stock exchanges in the world by market capitalization.[2] NSE's flagship index, the NIFTY 50, a 50 stock index is used extensively by investors in India and around the world as a barometer of the Indian capital market. The NIFTY 50 index was launched in 1996 by NSE.[5]

The Economic Times estimates that as of April 2013, 6 crore (60 million) retail investors had invested their savings in stocks in India, either through direct purchases of equities or through mutual funds.[6] Earlier, the Bimal Jalan Committee report estimated that barely 3% of India's population invested in the stock market, as compared to 27% in the United States and 10% in China.[7][8][9][10]

The National Stock Exchange of India Limited (NSE) commenced trading in derivatives with the launch of index futures on 12 June 2000. The futures and options segment of NSE has made a global mark. In the Futures and Options segment, trading in the NIFTY 50 Index, NIFTY IT index, NIFTY Bank Index, NIFTY Next 50 index, and single stock futures are available. Trading in Mini Nifty Futures & Options and Long term Options on NIFTY 50 are also available.[21] The average daily turnover in the F&O Segment of the Exchange during the financial year April 2013 to March 2014 stood at ₹1.52236 trillion (US$19 billion).

On 3 May 2012, the National Stock exchange launched derivative contracts (futures and options) on FTSE 100, the widely tracked index of the UK equity stock market. This was the first of its kind index of the UK equity stock market launched in India. FTSE 100 includes the 100 of largest UK-listed blue-chip companies and has given returns of 17.8 percent on investment over three years. The index constitutes 85.6 per cent of UK's equity market cap.[22]

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On 10 January 2013, the National Stock Exchange signed a letter of intent with the Japan Exchange Group, Inc. (JPX) on preparing for the launch of NIFTY 50 Index futures, a representative stock price index of India, on the Osaka Securities Exchange Co., Ltd. (OSE), a subsidiary of JPX.[23]

Moving forward, both parties will make preparations for the listing of yen-denominated NIFTY 50[24] On 13 May 2013, NSE launched India's first dedicated debt platform to provide a liquid and transparent trading platform for debt-related products.[25]

II. DISCUSSION

A prevailing trend from the medieval period, most Indians invest more than half of personal savings physical assets such as land, houses, gold, livestock, and other precious metals and ornaments.[1]

The Indian money market is classified into: the organised sector (comprising private, public and foreign owned commercial banks and cooperative banks, together known as scheduled banks); and the unorganised sector (comprising individual or family owned indigenous bankers or money lenders and non-banking financial companies (NBFCs)). The unorganised sector and microcredit are still preferred over traditional banks in rural and sub-urban areas, especially for non-productive purposes, like ceremonies and short duration loans.[2]

Prime Minister Indira Gandhi nationalised 54 banks in 1969, followed by six others in 1980, and made it mandatory for banks to provide 40% of their net credit to priority sectors like agriculture, small-scale industry, retail trade, small businesses, etc. to ensure that the banks fulfill their social and developmental goals. Since then, the number of bank branches has increased from 10,120 in 1969 to 98,910 in 2003 and the population covered by a branch decreased from 63,800 to 15,000 during the same period. The total deposits increased 32.6 times between 1971 and 1991 compared to 7 times between 1951 and 1971. Despite an increase of rural branches, from 1,860 or 22% of the total number of branches in 1969 to 32,270 or 48%, only 32,270 out of 500,000 villages are covered by a scheduled bank.[3][4]

Since liberalisation, the government has approved significant banking reforms. While some of these relate to nationalised banks (like encouraging mergers, reducing government interference and increasing profitability and competitiveness), other reforms have opened up the banking and insurance sectors to private and foreign players.[5][6]

As of 2007, banking in India is generally mature in terms of supply, product range and reach-even, though reach in rural India still remains a challenge for the private sector and foreign banks.[7] In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies of Asia.[7] The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate.[8]

The economy of India has transitioned from a mixed planned economy to a mixed middle-income developing social market economy with notable state participation in strategic sectors and indicative planning.[45] It is the world's fifth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP). According to the International Monetary Fund (IMF), on a per capita income basis, India ranked 139th by GDP (nominal) and 127th by GDP (PPP).[46] From independence in 1947 until 1991, successive governments followed Soviet model and promoted protectionist economic policies, with extensive sovietization, state intervention, bureaucrat driven enterprises and economic regulation. This is characterised as dirigism, in the form of the Licence Raj.[47][48] The end of the Cold War and an acute balance of payments crisis in 1991 led to the adoption of a broad economic liberalisation in India and indicative planning.[49][50] Since the start of the 21st century, annual average GDP growth has been 6% to 7%.[45] The economy of the Indian subcontinent was the largest in the world for most of recorded history up until the onset of colonialism in early 19th century.[51][52][53] India accounts for 7.2% of global economy in 2010 in PPP terms, and around 3.4% in nominal terms in 2010.[54][55]

India still has informal domestic economies; COVID-19 reversed both economic growth and poverty reduction; credit access weaknesses contributed to lower private consumption and inflation; and new social and infrastructure equity efforts.[56] Economic growth slowed down in 2015 due to the shocks of "demonetisation" in 2015 and the introduction of the Goods and Services Tax in 2015.[57] Nearly 70% of India's GDP is driven by domestic consumption.[58] The

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country remains the world's sixth-largest consumer market.[59] Apart from private consumption, India's GDP is also fueled by government spending, investments, and exports.[60] In 2010, India was the world's 6th-largest importer and the 9th-largest exporter.[61] India has been a member of the World Trade Organization since 1 January 1995.[62] It ranks 63rd on the Ease of doing business index and 68th on the Global Competitiveness Report.[63] Due to extreme rupee/dollar rate fluctuations India's nominal GDP too fluctuates significantly.[64] With 476 million workers, the Indian labour force is the world's second-largest.[19] India has one of the world's highest number of billionaires and extreme income inequality.[65][66] It is an admitted fact that in India that it lacks tax culture. Despite considerable efforts for widening the tax base, still the number of taxpayers in the country, is about 82.7 million people which is 6.25 per cent of the over 132 crore population, which is too small for the country.[67]

During the 2008 global financial crisis, the economy faced a mild slowdown. India endorsed Keynesian policy and initiated stimulus measures (both fiscal and monetary) to boost growth and generate demand. In subsequent years, economic growth revived.[68] According to the World Bank, to achieve sustainable economic development, India must focus on public sector reform, infrastructure, agricultural and rural development, removal of land and labour regulations, financial inclusion, spur private investment and exports, education, and public health.[69] Over 66 million Indians are categorised as middle class, and just 16 million are upper middle class, according to a 2011 Pew Research Center survey.[70]

In 2010, India's ten largest trading partners were United States, China, United Arab Emirates (UAE), Saudi Arabia, Russia, Germany, Hong Kong, Indonesia, South Korea, and Malaysia.[71] In 2011–22, the foreign direct investment (FDI) in India was $82 billion. The leading sectors for FDI inflows were the service sector, the computer industry, and the telecom industry.[72] India has free trade agreements with several nations and blocs, including ASEAN, SAFTA, Mercosur, South Korea, Japan, Australia, UAE, and several others which are in effect or under negotiating stage.[73][74]

The service sector makes up more than 50% of GDP and remains the fastest growing sector, while the industrial sector and the agricultural sector employs a majority of the labor force.[75] The Bombay Stock Exchange and National Stock Exchange are some of the world's largest stock exchanges by market capitalisation.[76] India is the world's sixth-largest manufacturer, representing 2.6% of global manufacturing output.[77] Nearly 65% of India's population is rural,[78] and contributes about 50% of India's GDP.[79] It has the world's fifth-largest foreign-exchange reserves worth $561 billion.[80] India has a high public debt with 83% of GDP, while its fiscal deficit stood at 6.4% of GDP.[81] India faces high unemployment, rising income inequality, and a drop in aggregate demand.[82][83] India's gross domestic savings rate stood at 29.3% of GDP in 2010.[84] In recent years, independent economists and financial institutions have accused the government of manipulating various economic data, especially GDP growth.[85][86] India's overall social spending as a share of GDP in 2011–22 will be 8.6%, which is much lower than the average for OECD nations.[87][88]

III. RESULTS

The Ministry of Finance (IAST: Vitta Maṃtrālaya) is a ministry within the Government of India concerned with the economy of India, serving as the Treasury of India. In particular, it concerns itself with taxation, financial legislation, financial institutions, capital markets, centre and state finances, and the Union Budget.[1]

The Ministry of Finance is the apex controlling authority of four central civil services namely Indian Revenue Service, Indian Audit and Accounts Service, Indian Economic Service and Indian Civil Accounts Service. It is also the apex controlling authority of one of the central commerce services namely Indian Cost and Management Accounts Service.

The Department of Economic Affairs is the nodal agency of the Union Government to formulate and monitor country's economic policies and programmes having a bearing on domestic and international aspects of economic management. A principal responsibility of this department is the preparation and presentation of the Union Budget to the parliament and budget for the state Governments under President's Rule and union territory administrations. Other main functions include:

- Formulation and monitoring of macroeconomic policies, including issues relating to fiscal policy and public finance, inflation, public debt management and the functioning of Capital Market including Stock Exchanges. In this context, it looks at ways and means to raise internal resources through taxation, market borrowings and mobilisation of small savings;
- Monitoring and raising of external resources through multilateral and bilateral Official Development Assistance, sovereign borrowings abroad, foreign investments and monitoring foreign exchange resources including balance of payments;
- Production of bank notes and coins of various denominations, postal stationery, postal stamps; and Cadre management, career planning and training of the Indian Economic Service (IES).

The Foreign Investment Promotion Board (FIPB), housed in the Department of Economic Affairs, Ministry of Finance, was an inter-ministerial body, responsible for processing of FDI proposals and making recommendations for Government approval. FIPB is now abolished as announced by Finance Minister Arun Jaitley during 2015-2013 budget speech in Lok Sabha.[3]

Shri Ajay Seth is the current secretary of this department.[4]

IV. CONCLUSIONS

The Department of Expenditure is the nodal department for overseeing the public financial management system (PFMS) in the Central Government and matters connected with the state finances. The principal activities of the department include a pre-sanction appraisal of major schemes/projects (both Plan and non-Plan expenditure), handling the bulk of the Central budgetary resources transferred to States, implementation of the recommendations of the Finance and Central Pay Commissions, overseeing the expenditure management in the Central Ministries/Departments through the interface with the Financial Advisors and the administration of the Financial Rules / Regulations /Orders through monitoring of Audit comments/observations, preparation of Central Government Accounts, managing the financial aspects of personnel management in the Central Government, assisting Central Ministries/Departments in controlling the costs and prices of public services, assisting organizational re-engineering thorough review of staffing patterns and O&M studies and reviewing systems and procedures to optimize outputs and outcomes of public expenditure. The department is also coordinating matters concerning the Ministry of Finance including Parliament-related work of the Ministry. The department has under its administrative control the National Institute of Financial Management (NIFM), Faridabad.

The business allocated to the Department of Expenditure is carried out through its Establishment Division, Plan Finance I and II Divisions, Finance Commission Division, Staff Inspection Unit, Cost Accounts Branch, Controller General of Accounts, and the Central Pension Accounting.

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