PROF. SARVESH DEEP

Money Market

DEPARTMENT OF COMMERCE

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History Of Money Market

- Money market mutual funds were introduced in India in April 1991
- To provide an additional short term revenue to investors and,
- To bring money market instruments within the reach of individuals
- The minimum lock in period was also reduced gradually 15 days making the scheme more attractive to investors.
- Money market in India is a correlation 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.

Money Market

- **Definition-** "The money market refer trading in very short-term debts investment . At the wholesale level ,it involves large – volume trader's between institution and trader."
- Money market involves the purchase and sale of large volumes of very short-term debt products, such as overnight reserves or commercial paper.
- Money market is one of the pillars of the global financial system
- The majority of money market transactions are wholesale transactions that take place between financial institutions and companies

Instrument Of Money Market

A variety of instrument are available in a developed money market in India till 1986 only a few instrument were available. They were:-

1. Treasury bills
2. Money at call and short notice in the call loan market
3. Commercial bills

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1. **Treasury Bills:-**
   - Treasury bills are instrument of short-term borrowing by the Government of India, issued as promissory notes under discount.
   - The interest received on them is the discount, which is the difference between the price at which they are issued and their redemption value.
   - They are freely marketable and commercial banks buy entire quantities of such bills, issued on tender.
   - Treasury Bills are guaranteed repayment at a later date funds collected through such tools are typically used to meet short term requirements of the government , hence to reduce the overall fiscal deficit of a country.

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2. **Call Money Market:-**
   - Money-at-call is any type of short term interest earning financial loan that the borrower has to pay back immediately when the lender demands.
   - It has a maturity period varying from one day to 14 days.
   - The interest rate paid on call money loans, known as the call rate, is highly volatile.
   - It is the most sensitive section of the money market and the changes in the demand and supply of call loans are promptly reflected in call rates.
   - Commercial banks, both Indian and foreign, co-operative banks, Discount and Finance House of India Ltd.(DFHI), Securities trading corporation of India (STCI) participate as both **lenders and borrowers** and Life Insurance Corporation of India (LIC), Unit Trust of India(UTI), National Bank for Agriculture and Rural Development (NABARD)can participate only as **lenders.**

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3. **Commercial bills:-**
   - Commercial bills are unsecured ,short–term debts issued by a corporation , often times for the financing of short–term liability and inventory.
   - commercial bills have higher yields than T-bills is due to the varying credit quality of each bill type.
   - It evidences the liability to make a payment on a fixed date when goods are bought on credit.
   - It is an asset with high degree of liquidity and a low degree of risk.
   - It is drawn always for a short period ranging between 3 months and 6 months.

Money Market

- As per the Reserve Bank of India, the term 'Money Market' is used to define a market where short-term financial assets with a maturity up to one year are traded.
- In other words, the money market is a mechanism which facilitate the lending and borrowing of instruments which are generally for a duration of less than a year.

Money Market Instruments

- As the name suggests, money market instrument is an investment mechanism that allows banks, businesses, and the government to meet large, but short-term capital needs at a low cost. They serve the dual purpose of allowing borrowers meet their short-term requirements and providing easy liquidity to lenders.

Examples of Money Market Instrument

- Banker's Acceptance
- Treasury Bills
- Repurchase Agreements
- Certificate of Deposits
- Commercial Papers

Mutual Fund

- A mutual fund is a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt.
- The combined holdings of the mutual fund are known as its portfolio.
- Investors buy shares in mutual funds.
- Each share represents an investor's part ownership in the fund and the income it generates.

Money Market Mutual Funds

- Money Market Mutual Funds (MMMF) is a short-run liquid investment with high credit rating.
- It targets to provide the investors with a low-risk return haven to invest in easily accessible cash and cash-equivalent assets.

Purpose

- Money Market Mutual Funds are used to manage the short-run cash needs.
- It is considered to be an open-ended scheme in the debt fund category that deals only with cash or cash equivalents.
- Since these securities have an average maturity of one year, it is termed as market instruments.

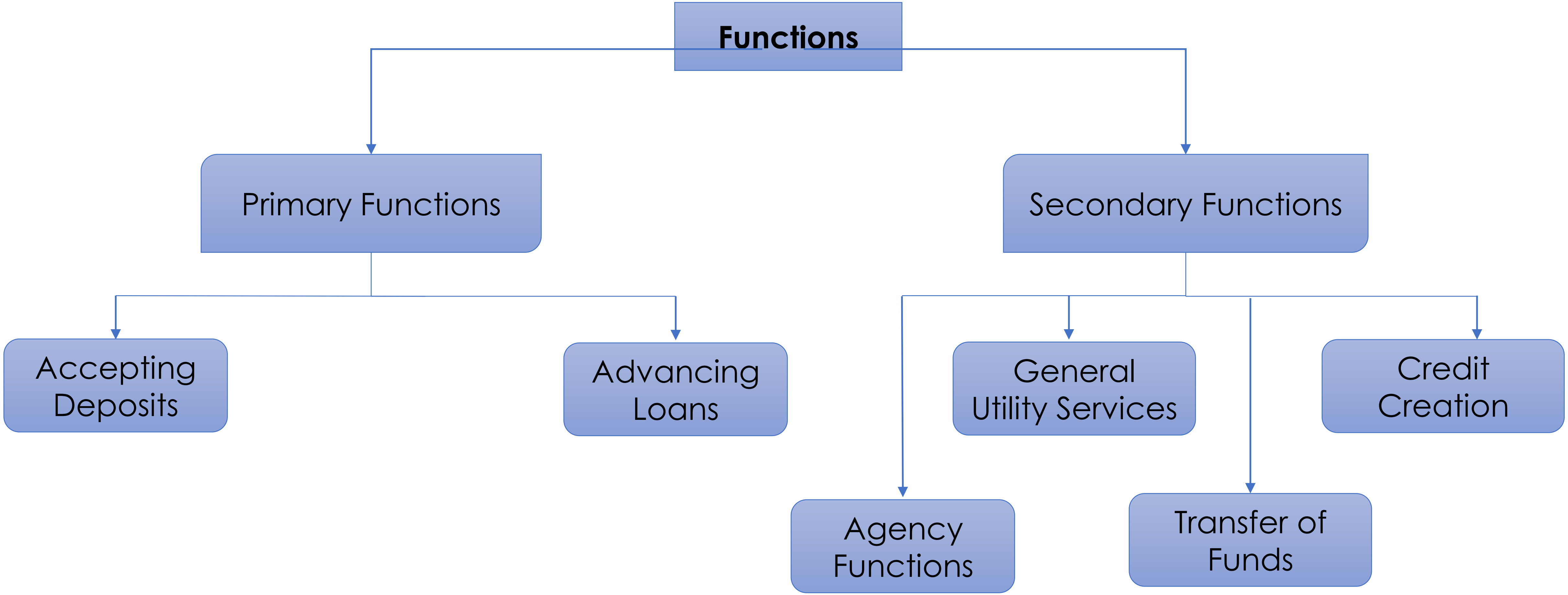
Types of Money Market Mutual Funds

- **Institutional Money Market Mutual Funds :-**
  - ✓Institutional Money Market Mutual Funds are authorized by the governments, institutional investors and businesses etc. There is a huge sum of money deposited in the institutional money funds.
- **Retail Money Market Mutual Funds**
  - ✓Retail Money Market Mutual Funds are used for depositing money temporarily. The investment portfolio of money market funds incorporates treasury bills, short term debts, tax-free bonds etc.

Commercial Bank

- A commercial bank is a financial institution which performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit.
- In fact, commercial banks, as their name suggests, are profit-seeking institutions, i.e., they do banking business to earn profit.
- They generally finance trade and commerce with short-term loans. They charge high rate of interest from the borrowers but pay much less rate of Interest to their depositors with the result that the difference between the two rates of interest becomes the main source of profit for the bank.

Functions of commercial Bank



Primary Functions

1. **Accepting deposits:-**
   i. Savings account
   ii. Current account
   iii. Fixed account
   iv. Recurring account
2. **Advancing loans:-**
   i. Term-loans i.e., Short-term loans
   ii. Cash credit
   iii. Overdraft
   iv. Discounting of bills of exchange

Secondary Functions

1. **Agency Functions:-** Commercial banks acts as an agent of the customers. It provide services to customers like-
   - Collection and payment of rent, interest and dividend,
   - Collection and payment of cheques and bills,
   - Buying and selling securities, and
   - Payment of insurance premium and subscriptions.
2. **General Utility Services:-** It provide general utility services to the customers and charges some sort of fees for the same. Some of the services are-
   - Safekeeping of valuables, documents etc., in locker or vault.
   - ATM card, credit card and debit card with facility of Internet and mobile banking.
   - Purchase and sale of foreign exchange (currency).

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3. **Transfer of funds:-** Banks assist in the transfer of funds from one person to another or from one place to another on behalf of customers.
4. **Credit Creation:-**
   - It is a situation in which banks provides more loans and advances to customers and business organizations, resulting in increasing the circulation of money (being passed from one person to another).
   - It is the unique power of banks to multiply loans and advances, and hence deposits.

Role Of Commercial Bank In Industrial Finance

Commercial Banks provides finance to industrial sector in a number of ways.

- They provide short-term, medium-term and long-term loans to industry.
- They advance medium-term loans for one to three years.
- The commercial banks also advance long-term loans to industry for more than three years.
- The commercial banks undertake short-term and medium-term financing of small scale industries, and also provide hire- purchase finance.
- They also underwrite the shares and debentures of large scale industries.
- Thus they not only provide finance for industry but also help in developing the capital market which is undeveloped in such countries.

Working Capital Financing By Commercial Banks

- Working capital financing by commercial bank is an important part of corporate finance.
- The business normally face the requirements of Small and medium scale finance for the operations.
- Commercial banks offers working capital financing for the business operations.
- There are various forms of finances available for working capital financing loans.
- The major forms of working capital financing by commercial banks are short-term loans, short-term credits, treasury lines and overdrafts.

Role Of Commercial Banks In Working Capital Financing

- Commercial Banks provides short-term working capital financing for a short period say 3, 6, 9 or 12 months.
- It is addressed to deal with special purposes like financing investments or financing the receivables.
- Commercial Bank offers short-term credit facilities to meet general working capital financing requirement on a continuous basis.
- The short-term credit facilities are generally offered for the period of 1 or 3 months and, on the other hand Treasury lines are offered for non-standard tenors.

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- The working capital limits are valid for a specific time period and loan is repayable on demand.
- The main facility working capital financing is, the businesses can have loan against their income.
- Commercial Bank can purchase account receivables of the businesses and lend credit on account of business.
- Commercial Banks also offer working capital loans by acting as a lessee and holding the lease of business equipment/property.

Thankyou!