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Indian Financial Market and its Globalisation

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Abstract

"Financial Globalisation" refers to the growing interconnectedness of the world as a result of cross-border financial transactions. The ties between a country and the international capital markets are referred to as financial integration. Money flows between industrialised countries have greatly expanded in the most recent era of financial globalisation, particularly between developed and developing countries. Although some emerging countries' excellent growth rates have been associated with capital inflows, several of them have also experienced periodic growth rate crashes. The report provides broad ideas for how countries might optimise the importance of globalisation and reduce its risks. It indicates that domestic institutional strength is particularly significant. Even while multiple indices of institutional quality are clearly related, there is rising evidence of the benefits of strong legal and regulatory frameworks, low levels of corruption, high levels of transparency, and efficient governance practises.

Key Words

Maximum temperature, Rainfall, Relative humidity, Bastarity, Bastar Plateau.

Introduction

Financial markets, which include the stock market, bond market, currency market, and derivatives market, among others, are any marketplace where trading in securities takes place. For capitalist economies to run smoothly, financial markets are essential. Financial markets allocate resources and provide liquidity for firms and entrepreneurs, which is essential for the proper operation of capitalist economies. Trading financial holdings is made simple for buyers and sellers by the markets. Financial markets create securities products that provide a return for those who have excess funds (Investors/lenders) and make these funds available to those who need additional money (borrowers). One form of financial market is the stock market. Buying and selling different kinds of

financial assets, such as shares, bonds, currencies, and derivatives, creates the financial markets. To ensure that prices are efficient and appropriate, financial markets primarily rely on informational transparency. The market prices of securities may not be indicative of their intrinsic value because of macroeconomic forces like taxes.

Types of Financial Markets

Financial market consists of two major segments: (a) Money Market; and (b) Capital Market. While the money market deals in short-term credit, the capital market handles the medium term and long-term credit.

Money Market

The money market is a market for short-term funds, which deals in financial assets whose period of maturity is upto one year. A market for credit instruments like bills of exchange, promissory notes, commercial paper, treasury bills, etc. is all that the money market does; it does not trade in cash or money itself. These financial products closely resemble money. These tools make it easier for the Government, other organisations, and corporate units to borrow money to cover their immediate needs. Money market does not refer to a particular market. Instead, it refers to the entire networks of financial institutions that deal in short-term financing and serve as both a source of supply for borrowers and a market for lenders. The majority of money market transactions occur over the phone, fax, or internet. The Reserve Bank of India, commercial banks, cooperative banks, and other specialised financial organisations make up the Indian money market. The Indian money market is dominated by the Reserve Bank of India. The Indian money market is also used by a few Non-Banking Financial Companies (NBFCs) and financial organisations like LIC, GIC, UTI, etc.

Money Market Instruments

Following are some of the important money market instruments or securities:

(a) **Call Money:** Banks primarily employ call money to satisfy their short-term cash needs. They often lend and borrow money from one another every day. It is repayable immediately, and the maturity period ranges from one day to two weeks. The term “call rate” refers to the interest rate charged on call money loans.

(b) **Treasury Bill:** A treasury bill is a promissory note that the RBI issues to provide the short-term funding needs. Treasury bills are very liquid financial instruments, thus their holders can always transfer them or seek a discount from the RBI. Typically, these bills are issued for less than their face value and repaid for that amount. Therefore, the interest earned on the investment is represented by the discrepancy between the issue price and the face value of the Treasury bill. These bills are secured securities that have a maximum 364-day maturity. In the market for Treasury bills, banks, financial institutions, and businesses typically play a significant role.

(c) **Commercial Paper:** Commercial paper (CP) is a common tool for funding businesses’ need for operating capital. The CP is a promissory note-based unsecured financial instrument. This tool was made available to corporate borrowers in 1990 so they could raise short-term capital. It may be issued for a duration of between 15 days and one year. Commercial papers are assignable via delivery and endorsement. The primary players in the commercial paper sector are well-known businesses (Blue Chip corporations).

(d) **Certificate of Deposit:** Certificates of Deposit (CDs) are short-term financial instruments that can be freely transferred from one party to another. They are issued by commercial banks and special financial institutions (SFIs). The maturity time for CDs is between 91 and 12 months. These may be given to private persons, cooperatives, or businesses.

(e) **Trade Bill:** Typically, dealers use credit to purchase products from manufacturers or wholesalers. After the credit period has expired, the sellers receive payment. However, if a seller needs money right away or does not want to wait, they can draw a bill of exchange in the buyer’s favour. The bill becomes

a negotiable instrument and is known as a bill of exchange or trade bill if the buyer accepts it. With a bank, this trade bill can now be discounted before it matures. The drawee, or the purchaser of the commodities, pays the bank at maturity. Trade bills are referred to as commercial bills when commercial banks accept them. So trade bill is an instrument, which enables the drawer of the bill to get funds for short period to meet the working capital needs.

Capital Market

Capital Market may be defined as a market dealing in medium and long-term funds. It is an institutional arrangement that offers opportunities for the selling and trading of securities as well as the borrowing of medium- and long-term funds. Therefore, it includes all long-term loans from banks and financial institutions, loans from international markets, and capital raising through the issuance of various instruments such as shares, debentures, bonds, etc. The Securities Market is the place where securities are traded. It is divided into two parts, the main market and the secondary market. The primary market, also known as the new issue market, deals with the new or fresh issuance of securities, whereas the secondary market, also known as the stock market or stock exchange, offers a venue for the buying and sale of existing assets.

Primary Market

The Primary Market is made up of agreements that make it easier for businesses to raise long-term capital by issuing new shares and debentures. You know that companies make fresh issue of shares and/or debentures at their formation stage and, if necessary, subsequently for the expansion of business. It is usually done through private placement to friends, relatives and financial institutions or by making public issue. In any event, the corporations are required to adhere to a tried and true legal process and work with numerous intermediaries, including underwriters, brokers, etc., who are essential to the primary market. You must be aware of the numerous initial public offerings (IPOs) that several public sector organisations, including ONGC, GAIL, and NTPC, have lately made.

Secondary Market

By supplying the required liquidity to holdings in shares and debentures, the secondary market, often known as the stock market or stock exchange, plays an equally significant role in mobilising long-term finances. It offers a location where these securities can be cashed out quickly and easily. It is a regulated market where shares and debentures are frequently exchanged with a high level of security and transparency. In reality, an active secondary market helps the primary market flourish because it gives investors in the primary market the assurance that there will always be a market for the liquidity of their holdings.The major players in the primary market are merchant bankers, mutual funds, financial institutions, and the individual investors; and in the secondary market you have all these and the stockbrokers who are members of the stock exchange who facilitate the trading.

Globalisation in Financial Marketing

In theory, financial globalisation and financial integration are two distinct ideas. Increasing worldwide links brought about by cross-border financial flows are collectively referred to as “financial globalisation.” Financial integration describes the connections a nation has to the world’s capital markets. These ideas are undoubtedly connected. For instance, growing financial integration is invariably linked to growing financial globalisation. the contrast between real capital flows and de jure financial integration, which is connected to capital account liberalisation measures. For instance, the literature frequently makes use of indicator measures of how much the Government restricts money movements across borders.

The consequences of financial marketing globalisation: In the most recent age of financial globalisation, money flows between industrialised nations have increased significantly, especially between developed and developing nations. Even if certain emerging countries’ excellent growth rates have been

associated with capital inflows, many of them have also experienced periodic growth rate collapses and catastrophic financial crises that have had a significant negative impact on macro-economic and social conditions. As a result, the effect of financial integration on emerging economies has been a hot topic of discussion. The analysis reveals broad guidelines for how nations may maximise the advantages of globalisation and minimise its hazards. The strength of domestic institutions appears to be particularly important. It may have a quantitatively significant influence on a nation's capacity to draw crisis susceptibility, according to a growing body of studies. There is mounting proof of the advantages of strong legal and supervisory frameworks, low levels of corruption, a high level of transparency, and sound corporate governance.

Features of capital flows across the globe: During last ten years, the amount of cross-border money movements has significantly increased. The amount of flows between industrialised nations has increased significantly, but there has also been a sharp increase in flows from developed to underdeveloped nations. Second, both "pull" and "push" forces have contributed to the recent increase in international capital flows to developing nations. Changes in legislation and other aspects of opening up by developing nations create pull factors. These include extensive privatisation initiatives as well as the liberalisation of local stock markets and capital accounts. Business cycle circumstances and macro-economic policy changes in industrialised nations are examples of push forces. From a longer-term vantage point, this second group of causes also includes demographic shifts (such as the relative ageing of the population in industrial nations) and the growing significance of institutional investors in industrial countries. The significance of these elements shows that been marked by secular pressures for increased global capital flows to the developing world, notwithstanding brief disruptions during crisis periods or global business-cycle downturns. Components of these flows fluctuate significantly in terms of volatility is another significant aspect of international capital flows. Particularly more volatile than foreign direct investment are portfolio flows and bank borrowing. The mix of capital flows may significantly impact a country's susceptibility to financial crises, notwithstanding the difficulty of accurately classifying capital movements.

Financial Globalisation

Risks and Returns

A more linked global financial system is the potential advantages of financial globalisation. Even if it appears that financial globalisation is expanding today, the global financial system is still far from being fully interconnected. There is proof of persistent home country bias and capital market segmentation. A return to the past is more expensive and thus more challenging due to the recent liberalisation of financial systems, technical advancements in globalisation. Although it is still possible, financial globalisation is not likely to be stopped, especially for economies that are only partially connected.

Conclusion

Finally, resarchers want to underline the importance of institutions and Government incentives in ensuring that globalisation benefits to everyone. They may also act fast to harmonise disparate laws, regulations and practises that impede cross-border financial integration. Furthermore, it is possible to anticipate that over time, the legal flexibility to engage in financial innovation will lessen obstacles to capital flow. But it will require several years of a market-driven integration to reach at that position.

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