**MONEY MARKET**

* The financial system of any country is a conglomeration (collection) of sub-market, viz. money, capital and forex markets. The flow of funds in these markets is multi-directional depending upon liquidity (Liquidity is a company's ability to convert assets to cash or acquire cash), risk profile, yield pattern, interest rate differential or arbitrage opportunities, regulatory restrictions, etc.

Imagine a country's financial system like a big marketplace with different sections. In this marketplace, there are three main sections: the money market, the capital market, and the foreign exchange (forex) market.

1. **Money Market**: This is where short-term funds are traded. It's like a place where people lend and borrow money for short periods, usually less than a year. Think of it as a marketplace for quick cash needs.
2. **Capital Market**: This section deals with longer-term investments, like stocks and bonds. It's where companies and governments raise money for big projects or expansions by selling ownership stakes (stocks) or borrowing (bonds).
3. **Forex Market**: Here, currencies are traded. It's like a marketplace for exchanging one country's currency for another. This happens for various reasons, like international trade or investment.

Now, imagine money flowing through these markets like water in a river, moving in different directions based on various factors:

* **Liquidity**: How easily assets can be turned into cash. If something is highly liquid, it means it can be sold quickly without losing much value.
* **Risk Profile**: Different investments have different levels of risk. Some are safer, like putting money in a savings account, while others, like investing in stocks, carry more risk.
* **Yield Pattern**: This refers to the returns or profits that investors expect from their investments.
* **Interest Rate Differential**: The difference in interest rates between two currencies or markets can influence where investors choose to put their money.
* **Arbitrage Opportunities**: This is when investors exploit price differences between markets to make a profit.
* **Regulatory Restrictions**: Rules set by governments or financial authorities that can affect how money moves in the markets.
* The role of money market - acts as a mechanism for ironing out short-term surpluses and deficits and provides a focal point for Central Bank's intervention to bring out variations in liquidity profile in the economy.
* Sure! Imagine you have some money you want to save for a short period, maybe just a few days or weeks. On the other hand, someone else might need money urgently for a short time, like to cover unexpected expenses or to invest quickly.
* Now, the money market is like a meeting place for people like you who want to save money for the short term and people who need to borrow money for the short term. It helps to balance out these needs.
* Let's say you have some extra money you want to save for a while. You can lend it out in the money market to someone who needs it urgently. This helps you earn a little profit on your savings.
* But what if suddenly many people want to borrow money, and there's not enough to go around? Or what if lots of people suddenly want to save their money, and there's too much cash sitting idle? That's where the Central Bank steps in. They keep an eye on how much money is moving around in the economy. If they see things getting out of balance—like too much borrowing or too much saving—they can step in to adjust things. They might do this by buying or selling government bonds or by adjusting interest rates.
* Money Market is the market for short-term funds, generally ranging from overnight to a year.
* It helps in meeting the short- term and very short-term requirements of banks, financial institutions, firms, companies and also the Government.
* The surplus funds for short periods, with the individuals and other savers, are mobilised through the market and made available to the aforesaid entities for utilisation by them.
* Thus, the money market provides a mechanism for bringing balance between short-term liquidity within an economy.

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"Short-term liquidity" refers to having enough cash or assets that can quickly be turned into cash to meet immediate financial obligations. In simpler terms, it's about having enough money on hand or assets that can be easily sold to cover short-term expenses like bills, salaries, or unexpected costs. So, when we talk about balancing short-term liquidity in the economy, it means ensuring that there's enough money available to meet these immediate needs without causing any disruptions or financial problems.

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* Hence, the presence of an active and vibrant money market is an essential pre-requisite for growth and development of an economy.

As the Indian economy gets integrated with the global economy, the demand for borrowing and lending options for the corporates and the financial institutions increases everyday.

* The major players in the money market: Reserve Bank of India, Financial institutions such as UTI, GIC, and LIC.
* The money market thus may be defined as a centre in which financial institutions congregate for the purpose of dealing impersonally (

not showing or involving personal feelings

) in monetary (Monetary means relating to money, especially the total amount of money in a country) assets

* The money market is a collection of various sub-markets, such as, call money, notice money, repo’s, term money, treasury bills, commercial bills, certificate of deposits, commercial papers, etc.

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1. **Call Money:** Short-term loans that banks extend to each other to meet reserve requirements.
2. **Notice Money:** Similar to call money, but the lending and borrowing transactions are announced in advance.
3. **Repo (Repurchase Agreements):** Short-term borrowing where the seller of securities agrees to buy them back at a slightly higher price.
4. **Term Money:** Longer-term loans in the money market, typically with a maturity of more than one day.
5. **Treasury Bills:** Short-term government debt securities with maturities ranging from a few days to a year.
6. **Commercial Bills:** Short-term debt instruments issued by corporations to finance short-term liabilities.
7. **Certificate of Deposits (CDs):** Time deposits offered by banks with fixed terms and interest rates.
8. **Term Money:** It's like borrowing money for a bit longer than just a day. People or businesses might need money for a few days or even a few months, and term money helps with that. It's still in the 'money market,' where things are more short-term.
9. **Treasury Bills:** These are like IOUs from the government, but they're really short-term. The government needs money for various things, so it sells these IOUs to people or other countries. They're usually paid back pretty quickly, within a year or even just a few days.
10. **Commercial Bills:** Companies sometimes need quick cash to cover expenses or invest in something. So, they issue these IOUs, kind of like promises to pay back the money they borrowed, but it's for a short time, usually less than a year.
11. **Certificate of Deposits (CDs):** This is like putting money in a special piggy bank at the bank. You agree to leave your money there for a set amount of time, and in return, the bank gives you a bit more money back later. It's a safe way to save money and earn a bit extra.
12. **Commercial Papers:** Companies might need cash right away, so they write up a note promising to pay back the money they borrowed. These notes are like short-term loans but without any assets backing them up. They're quick ways for companies to get the money they need.

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Unlike capital market or commodity markets, tradings in money market are concluded over telephone followed by written confirmation from the contracting parties. Hence, integrity is sine qua non. Thus banks and other players in the market may have to be licensed and effectively supervised by regulators

1. the number of instruments dealt with in the Money Market are many like
   1. Interbank Call Money,
   2. Notice Money upto 14 days
   3. Short-term deposits upto 3 months
   4. 91-days Treasury Bill (T-Bills)
   5. 182-days Treasury Bill
   6. Commercial Paper – Minimum Rs 5 Lakhs ( 7 Days to1 Year)
   7. CD i. e. certificate of deposit ( 7 Days to1 Year)
2. **Interbank Call Money**: This is when banks borrow money from each other for a very short period, usually just for a day.
3. **Notice Money up to 14 days**: Similar to call money, but the borrowing period can be up to 14 days. Banks have to give notice to each other before borrowing or lending money.
4. **Short-term deposits up to 3 months**: Banks accept deposits from customers for short periods, usually up to 3 months, and pay them interest on it.
5. **91-days Treasury Bill (T-Bills)**: These are short-term government securities with a maturity period of 91 days. Investors buy them from the government, and when they mature, the government pays back the invested amount along with interest.
6. **182-days Treasury Bill**: Similar to the 91-days T-Bill, but with a maturity period of 182 days.
7. **Commercial Paper (CP)**: These are short-term unsecured promissory notes issued by companies to raise funds. Investors buy them, and the companies pay them back with interest after a specified period, usually ranging from 7 days to 1 year.
8. **Certificate of Deposit (CD)**: These are time deposits offered by banks to customers. Customers deposit a certain amount of money for a specified period, and in return, the bank pays them interest. CDs can range from 7 days to 1 year.

Rate of interest in money market is controlled by RBI or central bank of any country

*The principal intermediaries in the organised segment are:*

1. The commercial and other banks,
2. Non-banking finance companies and
3. Co-operative societies

The rate of interest in the money market is typically influenced by the central bank or RBI (Reserve Bank of India) in the case of India, or the equivalent central banking authority in other countries. The central bank sets the benchmark interest rates, such as the repo rate or the federal funds rate, which then affects the overall interest rates in the economy, including those in the money market.

Regarding the principal intermediaries in the organized segment of the money market:

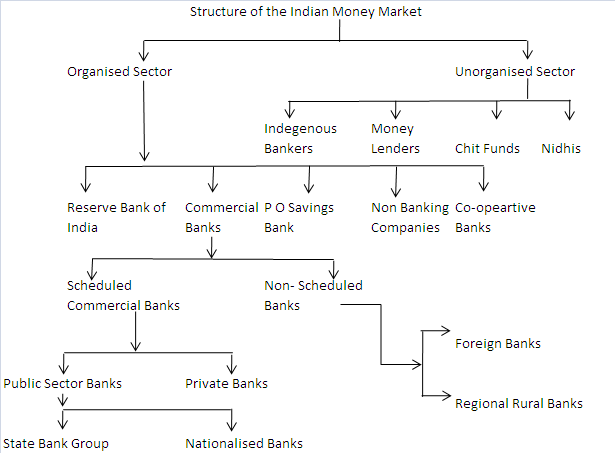
(a) Commercial and other banks: These are traditional banks that accept deposits from customers and provide loans. They play a significant role in the money market by lending to other financial institutions, participating in interbank lending, and investing in short-term securities.

(b) Non-banking finance companies (NBFCs): NBFCs are financial institutions that offer various banking services but do not hold a banking license. They provide loans, credit facilities, and other financial services, often specializing in specific sectors or customer segments. In the money market, NBFCs may engage in borrowing and lending activities, including short-term lending and investing in money market instruments.

(c) Co-operative societies: Co-operative societies are member-owned organizations that provide financial services to their members. They operate on a cooperative basis, where members pool their resources to benefit collectively. Co-operative societies may participate in the money market by offering deposit and loan facilities to their members, investing in money market instruments, and accessing funding through interbank markets.

These intermediaries play vital roles in facilitating liquidity and credit provision within the money market, contributing to the efficient functioning of the financial system.

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**CRR**

CRR is the amount of reserve which banks have to keep it with Reserve Bank of India (RBI). The current CRR rate is 4.5%. However, this rate may change from time to time as per the discretion of the RBI. So, CRR is basically a fraction of the total amount of deposits collected from the customers and kept as reserve either in cash or as deposits with the central bank.



**SLR**

SLR is the amount of reserve which banks have to keep it with themselves. Apart from Cash Reserve Ratio (CRR), banks have to maintain a certain portion of their deposits in the form of liquid assets like cash, gold and non-mortgaged securities

SLR stands for Statutory Liquidity Ratio. It's the percentage of a bank's deposits that it's required to keep in the form of liquid assets. These assets include things like cash, gold, and certain types of securities that the bank can easily convert into cash if needed

So, when we talk about SLR, we're essentially talking about the amount of money that a bank has to set aside and keep on hand to ensure that it can meet its obligations to depositors and other creditors. It's like a safety cushion to make sure the bank can handle unexpected withdrawals or financial disruptions

Further, Banks which subscribe to Treasury bills, issued by RBI on behalf of Government, qualifies their SLR requirements.



When banks buy Treasury bills (short-term debt securities) from the government through the Reserve Bank of India (RBI), it counts towards meeting their SLR requirements. Essentially, instead of keeping all their required reserves in cash, gold, or other securities, banks can also meet part of their SLR obligation by investing in these government-backed Treasury bills

There is a reporting Friday in which Banks have to report to the RBI every alternate Friday their SLR maintenance.

The current SLR is 18%

MONEY MARKET INSTRUMENTS – G – SEC (GOVT SECURITIES)

The Reserve Bank of India issues securities on behalf of the Government. The term Government Securities includes Central Government Securities, State Government Securities and Treasury Bills.

ZERO Coupon Bonds

Floating Rate Bonds

Capital Indexed Bonds (% over Inflation benchmark)

**REPO**

**Reverse REPO**

**Money supply in markets / In Indian Economy**

* **By printing more currency notes ….. Money supply increases**
* **Repayment of loan by RBI on behalf of Govt**

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The "Repayment of loan by RBI on behalf of Govt" refers to a scenario where the government has borrowed money from the market through instruments like treasury bills, bonds, or other debt securities, and the repayment of this borrowing is facilitated by the Reserve Bank of India (RBI).

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* **By making change in policy rates – CRR & SLR**
* **CRR is a cash reserve ratio to be maintained by all Banks with RBI**

**e.g. when people deposit their cash either in savings a/c or FD…. Assume Rs. 100 in SBI**

**This CRR – 4.5%to be maintained in cash and can not be given as loan …..This CRR reduces availability of money for loan disbursements and reduces liquidity**

**SLR – Statutory Liquidity Ratio = 18%**

**Out of 100 Rupees collected by SBI, Rs. 18 shall be kept in the form of**

* **Gold, Foreign currency, Investment in govt securities, Treasury Bills etc. & these 18 Rupees are also not available for distributing loans**
* **Thus out of Rs 100- 4.5-18= 77.5 available for distribution of loans**
* **Practically it is just impossible to distribute exactly Rs 77.5 as loan**
* **Here Banks will invest surplus money in govt securities**
* **Also by giving short term loan to other banks (Call Money OR Notice Money i.e. just for single day to 14 days)**
* **E.g. HDFC bank is having shortage of cash on a particular day or two …. HDFC will ask other banks having surplus cash…. For borrowing**

**What is REPO**

**Re-purchase option**

**Suppose Bank of India has collected say Rs. 1 Lakh from savings account & FD**

**Out of this Rs 1 Lakh, it has purchased Govt securities / Treasury Bills for Rs 30,000 …. Duly maintained CRR & SLR**

**Now say on 30 April bank suddenly requires Rs 5,000**

**It has two options**

1. **Borrow from other Banks**
2. **Borrow from RBI ….. here BOI will transfer / sell Govt securities worth Rs 5,000 to RBI & RBI will pay say Rs 4900……. Once BOI is comfortable and is in position to repurchase these securities from RBI by paying Rs 5000 …. Indirectly interest charged by RBI is Rs 100**

**This is called as REPO at present it is 6.50%**

**On the other hand when Banks have high liquidity….. they will invest with RBI called as Reverse Repo and RBI pays some small interest …. At present it is just 3.35%**

Think of the Bank of India (BOI) as a person who has some money to invest. They have collected money from savings accounts and fixed deposits (FDs). With that money, let's say Rs 1 Lakh, they decide to buy government securities or treasury bills for Rs 30,000. This is like BOI lending money to the government.

Now, let's say BOI suddenly needs some money back, like Rs 5,000, by April 30th. They have two options:

1. They can borrow the money from other banks.
2. They can borrow the money from the Reserve Bank of India (RBI).

If they choose the second option, they will sell some of the government securities they bought (worth Rs 5,000) to the RBI. The RBI will pay them, let's say, Rs 4,900 for these securities. But, there's a catch. If BOI wants to get those securities back from the RBI later, they'll have to pay Rs 5,000. So, essentially, the RBI is charging them interest indirectly, which in this case would be Rs 100.

This process of borrowing money from the RBI by selling securities and agreeing to repurchase them later is called a REPO (Repurchase Option). Currently, the interest rate for this is 6.50%.

Now, let's flip the scenario. When banks have a lot of extra money and want to earn some interest on it, they can invest it with the RBI. This is called a Reverse Repo. The RBI will pay them a small interest on this investment. Currently, this interest rate is just 3.35%.

So, in simple terms, REPO is when banks borrow money from the RBI by selling securities, and Reverse Repo is when they lend money to the RBI and earn interest on it.