

## **Difficulties in Indian Financial Market**

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**ABSTRACT:**In India, there has been a sensible effort by the RBI and the Government of India to progress and integrate various financial market sections in a phased manner. Gradual financial reforms have enhanced the market effectiveness of the country's financial market. So, financial market may be defined as 'a transmission mechanism between investors (or lender) and borrowers (users) through which transfer of funds is facilitated'. The development of an economy is largely influenced by financial markets- as they comparatively allocate financial resources that are mobilized from savers and investors among users in the economy. After independence Indian financial market has developed very much but on global level it is still far behind as there are many challenges on the growth of Indian financial market. The money, foreign exchange, government securities, and equity markets in India have developed into reasonably deep, resilient, and liquid markets over time. This paper based on secondary sources highlights the role of financial market in economy, various issues and challenges faced by Indian financial market at present and suggest some measures for the development of the financial markets.

**KEYWORDS:**Financial markets, capital market, development, etc.

### **INTRODUCTION:**

Financial markets transfer funds from those who have excess funds to those who need funds. The main participants in financial markets can be classified as households, Businesses and govt. agencies. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. The banking regulator has allowed new entities such as payments banks to be created recently thereby adding to the types of entities operating in the sector. However, the financial sector in India is predominantly a banking sector with commercial banks accounting for more than 64 per cent of the total assets held by the financial market in India. . The development of an economy is

largely influenced by financial markets- as they comparatively allocate financial resources that are mobilized from savers and investors among users in the economy. In the present paper the researcher has focused on main problems faced by government and central bank in developing financial market in our country.

**OBJECTIVES:**

- Overview of Financial markets in India.
- Major problems in financial markets in India.
- Role of financial markets in development of economy.

**METHODOLOGY:**The present study is of descriptive nature in which secondary sources are used to explain the topic. Here researcher has used different books, journals, newspapers articles and websites.

**FINANCIAL MARKET IN INDIA:**

Financial market is an institution or planning which facilities the exchange of financial assets such as deposits and loans, stocks and bonds, govt. securities, cheques, bills etc. financial markets function through brokers, banks, non- banking financial institutions, merchant banks, mutual funds, discount markets, commercial bank etc.

**TYPES OF FINANCIAL MARKET:**

- **Primary and Secondary market:** Financial markets are also classified in to primary and secondary markets. In a primary market, new issues of financial assets are bought and sold in a secondary market. When a new company issues its shares or an existing company sells its new shares that have not been bought by anyone earlier, they are bought and sold in the primary market. On the other hand, when a person sells his already purchased shares of company, they will be bought in the secondary market.

- **Money and Capital market:** One method is related to the type of assets traded, i.e. short-term or long-term assets. The market in which short-term financial instruments are traded is money market whereas the market in which long-term financial instruments are traded is called capital market. This is also called functional classification of financial markets.
- **Equity market:** Shares of corporate are bought and sold in an equity market. Equity market is further divided into primary and secondary market. New shares are sold in the primary market and existing shares are traded in the secondary market.
- **Debt market:** In the debt market, lender provides funds to the borrowers for a certain period. In return for the funds, the borrower agrees to pay to the lender the principal amount of the loan and certain rate of interest. People borrow new cars, houses, etc. From debt markets Companies borrow from investors for working capital and new equipment's by issuing bonds. Central, state, and local Govt. Obtain funds from debt markets to finance various public projects. The purchase of new bonds issued by companies and govt. takes place in primary debt market and the purchase and sale of bonds is done in the secondary debt market.

### **MAJOR PROBLEMS IN INDIAN FINANCIAL MARKET:**

There are various difficulties in India and it is true that additional of them are linked to finance Problems and economic difficulties. Indian financial organization has great role in world's economy being the tenth largest economy in the world by GDP. We are now going through at least three kinds of finance problems in the India. These are: -

- **Lack of integration:** The Indian financial market is loosely integrated. The market is divided in many submarkets which mainly cater to the needs of the locality. Lack of close contact and cooperation is found within these sub-markets. The market is split into small fragments and there is no all India money market in the true sense of the term.
- **Difference in rates of interest:** The different interest rates prevailing in the financial market in India are not related to the bank rate. The rates of interest by

commercial banks differ widely depending upon the localities in which they function, type of collateral security that is offered, nature of the advances and competition they have to face.

- **Underdeveloped banking habits:** Even after considerable branch expansion during the past four decades, it is still true to say that banking habit is relatively undeveloped and the uses of cheques remain restricted. The use made of bank credit is relatively restricted. The majority of transactions involve the direct employment of bank notes and coins.
- **Lack of funds:** The Indian financial market suffers from shortage of funds for lending purposes. The shortage of funds becomes more pronounced in the busy season. Low level of per capita income, low capacity to save and high liquidity are the main reasons for permanent shortage of funds. The transfer of resources from the accounted to the unaccounted sector also creates the shortage of funds.
- **Lack of specialised banks:** Almost all Indian banks are commercial banks whereas in the developed money market adequate banking facilities of specialised form like the industrial banks, discount houses, etc. Exist. In the Indian financial market, the existing facilities for agricultural finance are also inadequate.
- **Dominance of village moneylender:** Even after banking expansion in the rural areas, the money lenders still continue to be the dominant source of supply of credit to the agriculturists in a desert for improvidence and extravagance. They exploit the unaware customers like a sheep of its fleece.
- **Lack of clearing houses:** except in the big cities and towns the clearing houses are not available in other places. This forces the banks to keep excessive liquid funds.
- **Unemployment:** Unemployment is also one of most important financial complications in India. Here in a family if one or two members are earner and rest is simply depend on his/her/them then it creates a big problem. This kind of financial problem affect whole financial system of a country. India's financial sector is facing considerable challenges with high non-performing assets and slow deleveraging and repair of corporate balance sheets testing the resilience of the banking system and holding back growth.

- Many of people of fewer than 45 years lowball their pension prerequisite. Not only lowball, but are very far-off from the correct estimation. They mostly generalize from their parent's necessity, even when they recognize that they lead a very different kind of lifestyle. After retirement they get financial complications.
- Indian people are being extravagant imitating the western developed countries. You can find this at many times in various examples. They flushed out wine worth of million when India win world cup. This is a simple and fresh example. It causes of financial problems to others.

#### **ROLE OF FINANCIAL MARKETS IN ECONOMIC DEVELOPMENT:**

- **Capital formation:** Economic development depends upon capital formation for which saving is essential. For capital formation only saving is not enough, their accumulation is also necessary. This is done by financial institutions which operate in financial markets. Mere accumulation of savings does not lead to capital formation. Savings by different groups of society are required to be channelized in productive investments. Financial markets help in three processes- to save, to accumulate and to invest- of capital formation which lead to rapid economic development.
- **Non- financial business sector:** Financial markets help the non-financial business sector by facilitating the sale and purchase of shares, bonds, debentures, etc. Financial institutions like commercial banks, mutual funds, savings and loan associations, insurance companies, merchant banks, unit trusts, etc. Operate in the financial markets and transfer funds from savers to business by lending their surplus funds. Savers earn interest or dividend which again reinvest in shares, bonds, etc.
- **Help to Government:** Financial markets help state Govt., local bodies and central govt. financially by buying and selling their bonds and securities through which they invest in various local, state level and central projects to accelerate economic development.

- **Create new assets and liabilities:** Financial markets create new assets and liabilities which provide financial help to business, trade and industry that lead to raise the level of economic development. For instance, banks create credit by buying primary securities which they sell to businesses, traders and industry. They create liabilities by multiplicity of primary securities they hold.
- **Provide liquidity:** Financial markets provide liquidity to the economy which is very essential for the economic development of the country. When financial institutions in the financial markets convert an asset into cash easily and quickly without loss in its money value, they provide liquidity in the economy. When financial institutions, especially banks, issue claims against themselves and supply funds, they always try to maintain their liquidity.

## **CONCLUSION:**

The Indian financial system has undergone structural transformation over the past decade. The financial sector has acquired strength, efficiency and stability by the combined effect of competition, regulatory measures, and policy environment. In this environment, leaders are biased toward decisions that keep them in a comfortable position. In the capital market, the progress of reforms has been impressive during the nineties. However, certain refinements are needed to bring the Indian markets on par with the major international markets.

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