Indian Financial System

1. Indian Financial System is a system in which People, Financial Institutions, Banks, Industrial Companies and the Government demand for fund and the same is supplied to them.

2. There are two parts of Indian Financial System—first demand side and second supply side. The representative of demand side can be Individual investor, Industrial and Business Companies, Government etc. and the representative of supply side will be Banks, Insurance Companies, Mutual Fund and other Financial Institutions.

3. The Indian financial system, which refers to the borrowing and lending of funds or to the demand for and supply of funds of all individuals, institutions, companies and of the Government consists of two parts, viz., the Indian money market and the Indian capital market.

4. The Indian money market is the market in which short-term funds are borrowed and lent. The capital market in India, on the other hand, is the market for medium-term and long-term funds.

5. The Indian financial system performs a crucial role in economic development of India through saving - investment process, also known as capital formation.

6. The financial system is, commonly, classified into : (a) Industrial finance, (b) Agricultural finance, (c) Development finance and (d) Government finance.

7. Devaluation means lowering the official value of the local money in terms of foreign currency or gold.

8. Balance of Payments (BOP) is a systematic record of all the economic transactions between one country and the rest of the world in a given period.

9. Balance of Trade (BOT) is the difference between the value of goods exported and the value of goods imported per annum. Services not included in BOT.

10. BOP is divided in current account and capital account.

11. EXIM Policy 2000-01 introduced Special Economic Zones Scheme (SEZ).

12. 1994-95, Indian Rupee was made fully convertible on current account. Fiscal Policy is the policy relating to public revenue and public expenditure and allied matters.

13. Usually, the Indian money market is classified into organised sector and the unorganised sector.

14. The unorganised sector consists of indigenous bankers including the non-banking financial companies (NBFCs). Besides, these two, there are many sub-markets in the Indian money market.

15. The organised banking system in India can be broadly divided into three categories, viz., the central bank of the country known as the Reserve Bank of India, the commercial banks and the co-operative banks which includes private sector and public sector banks and also foreign banks.

16. The highest financial institution in organized sector is Reserve Bank of India and in addition to this Banks of Public Sector, Banks of Private Sector, Foreign Banks and other financial institutions are also part of organized sector.

17. The Reserve Bank of India regulates and controls the money of the country.

18. The RBI was established under the Reserve Bank of India Act, 1934 on 1st April, 1935 with a capital of Rs. 5 crore. It was nationalised on 1st January, 1949; on the recommendation of Parliamentary Committee in 1948. It is the Central Bank of India.

19. The Reserve Bank of India is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the country. It keeps the reserves of all commerical banks and hence is known as the "Reserve Bank". Its financial year is 1st July to 30th June.

The Indian Capital Market

1. The Indian capital market is the market for long-term capital; it refers to all the facilities and institutional arrangements for borrowing and lending "term funds" - medium term and long term funds.

2. The Capital Market in India includes :

- Government Securities (Gilt-edged market)
- Industrial Securities Market
- Development financial institutions like IFCI, IDBI, ICICI, SFCs, IIBI, UTI etc.
- Financial Intermediaries like Merchant banks.

3. Individuals who invest directly on their own in securities are also supplier of fund to capital market. The trend in the capital market is basically affected by two important factors :

- operations of the institutional investors in the market and
- the excellent results flowing in from the corporate sector.

4. The capital market in India can be classified into : * Gilt-edged market or market for Government and semi -government securities; * Industrial securities market; * Development financial institutions; and * Non - banking financial companies.

5. The gilt - edged securities market is the market for Government and semi government securities which carry fixed interest rates.

6. The industrial securities market is the market for equities and debentures of companies of the corporate sector. This market is further classified into— (a) for raising fresh capital in the form of shares and debentures, (commonly referred to as primary market) and (b) old issues market (or secondary market) for buying or selling shares and debentures of existing companies - this market is commonly referred to as the stock market or stock exchange.

7. If shares or debentures of private corporations, primary sureties of government companies or new sureties and issue of bonds of public sector are sold or purchased in the capital market, then the market is called Primary Capital Market.

8. Secondary Market includes transactions in the stock exchange and gilt-edged market.

9. Merchant Bank, Mutual Fund, Leasing Companies, Risk Capital Companies etc. collect and invest public money into the capital market.

10. Unit Trust of India (UTI) is the biggest Mutual Fund Institution of India.

Some Important Share Price Index of India

1. BSE SENSEX : This is the most sensitive share index of the Mumbai Stock Exchange. This is the representative index of 30 main shares. Its base year is 1978-79. BSE is the oldest stock exchange of India, founded in 1875.

2. BSE 200 : This represents 200 shares of Mumbai Stock Exchange. Its base year is 1989-90.

3. DOLLEX : Index of 200 BSE Dollar Value Index is called DOLLEX. Its base year is 1989-90.

4. NSE-50 : From 28th July, 1998, its name is S and P CNX Nifty. National Stock Exchange has launched a new share Price Index, NSE-50 in place of NSE-100 in April

1996. NSE-50 includes 50 companies shares. This stock exchange was founded on Ferwani Committee's recommendation in 1994.

5. CRISIL, set up in 1988, is a credit rating agency. It undertakes the rating fixed deposit programmes, convertible and non - convertible debentures and also credit assessment of companies.

6. CRISIL 500 : is the new share Price Index introduced by Credit Rating Agency the "Credit Rating Information Services of India Limited" (CRISIL) on January 18,1996.

7. Apart from CRISIL, there is another credit rating agency called "Investment Information and Credit Rating Agency of India Limited (ICRA)." It rates debt instruments of both financial and manufacturing companies.

8. The National Stock Exchange (NSE) has launched a new version of its online trading software called 'National Exchange for Automatic Trading' (NEAT).