Journal of Advances and Scholarly Researches in Allied Education
Vol. 16, Issue No. 5, April-2019, ISSN 2230-7540

Analysing Indian Financial System as an Important Factor for Economic Growth

A. Zeeshan Ali[1]* Dr. Pawan Kumar Verma[2]

[1] Research Scholar, Department of Management, OPJS University, Churu, Rajasthan

[2] Research Supervisor, Department of Management, OPJS University, Churu, Rajasthan

Abstract – As the economy expands as well as gets market-oriented and complex more, the financial industry begins playing an important role in supporting growth by channelling foreign and domestic capital into effective investments. To increase access to the financial system is additionally a primary problem for creating growth much more sensible and sustainable, out of both social and economic perspectives. Financial systems one of the industries in an economy. It performs particular crucial features for the economy such as the upkeep of payment system, allocation, and compilation of the savings of construction and society of an assortment of retailers of wealth to fit the preferences of savers. The financial system of land is actually a crucial tool for the economic development of the nation. It can help in the creation of wealth by linking the savings with investments. Additionally, it facilitates the flow of money by the households (savers) to company firms (inventors) to assist in wealth development as well as the development of both the parties.

- X -

I. INTRODUCTION

The financial structure plays a crucial role in the economic development of a nation. It encourages both savings as well as an investment as well as produces links between investors and savers as well as facilitates the expansion of financial markets as well as aids in financial broadening and deepening. The financial structure speeds up the amount as well as the volume of savings via the provision of different financial instruments and cost-efficient mobilization of savings. It helps in raising the national output of the nation by offering them money to the company buyers to grow the respective company of theirs. Additionally, it protects the interests of the investors as well as guarantees the smooth financial transitions through regulatory systems like RBI, SEBI, etc.

The financial structure will help the economic growth and increasing the standard of living of individuals. It can help to advertise the improvement of weaker segments of the society through outlying development banks as well as co-operative societies. The financial institutions aid the buyers to make far better financial choices by providing powerful financial and advisory services. It helps in the expansion of assets that are financial as a fraction of GDP and raising the number of participants of the financial system.

II. STRUCTURE AND FUNCTION OF INDIAN FINANCIAL SYSTEM

The financial system is a set of institutional arrangements through which financial surpluses in the economy are actually mobilized from surplus models and transferred to deficit spenders. The institutional arrangements include all conditions plus mechanisms governing the production, distribution, exchange, and holding of financial assets or maybe instruments of the organizations and all types also the fashion of operations of financial markets as well as institutions of all descriptions.

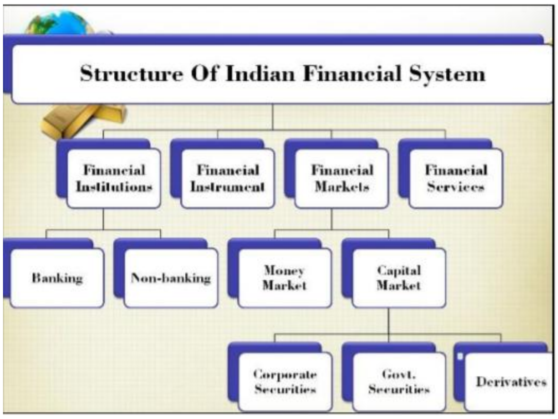

Figure 1: Structure of Indian Financial System

Thus, there are three main constituents of financial system:

(a) Financial Assets

(b) Financial Markets, and

(c) Financial Institutions.

Financial assets

Financial assets are subdivided below 2 heads: Secondary securities in addition to primary securities. The former is actually financial statements against real sector devices, for instance, bills, bonds, equities etc. They're developed by real sector products as main borrowers for raising money to finance the deficit spending of theirs. The secondary securities are actually financial statements issued by financial institutions or maybe intermediaries against themselves to raise money from the public. For example, bank deposits, life insurance policies, UTI devices, IDBI bonds etc. Features of Financial.

Financial Markets

The financial system works through financial markets & institutions. The Indian Financial System (financial markets) is broadly divided below 2 heads:

- Indian Money Market
- Indian Capital Market

The Indian cash market is the market place where short term finances are borrowed as well as lent. The cash market doesn't deal in money, or maybe cash but in bills of exchange, grade costs as well as other instruments and treasury bills. The capital market of India on the additional hand in the industry for the medium term as well as lasting money. Role of the financial system in the economic development of a nation.

Financial institutions

The financial institutions are actually intermediaries of financial markets that facilitate financial transactions involving people & financial clients. The financial institutions have collects the cash from individuals as well as invests that hard-earned cash in financial assets like stocks, bonds, loans and bank deposits etc., The following are actually the financial institutions

- Banking institution
- Non-banking institutions
- Regulatory institutions
- Intermediaries

III. LIMITATIONS OR WEAKNESSES OF INDIAN FINANCIAL SYSTEM

After the introduction of planning, rapid industrialization has taken place. It has in turn led to the growth of the corporate sector and the Government sector. In order to meet the growing requirements of the Government and the industries, many innovative financial instruments have been introduced. Besides, there has been a more growth of financial intermediaries to meet the ever growing financial requirements of different types of customers. Hence, the Indian financial system is more developed and integrated today than what it was 50 years ago. Yet, it suffers from some weaknesses as listed below:

- Lack of co-ordination between different financial institutions
- Monopolistic market structures
- Dominance of development banks in industrial financing
- Inactive and erratic capital market
- Imprudent financial practice

IV. FINANCIAL SYSTEM AND ECONOMIC GROWTH

The procedure for economic development calls for as one of its accompanying structural changes in the economy, the improvement of a capital industry that will supply a sufficient and correctly distributed source of finance to the entrepreneurs creating new manufacturing plants or may be thinking of growing or perhaps modernizing the already developed one. While finance itself creates no output, but it enables the entrepreneurs to gain control over actual energy which allows them to participate in the market by making as well as distributing manufacturing products. At the beginning stage of development, the would be business owners typically find the own financial resources of theirs insufficient and resort to outside sources. This kind of finances is actually made readily available by the financial intermediaries.

In a contemporary economy, that is characterized by income exchange, the majority of the investors are actually company firms, while the top savers are actually the households. Enterprise companies desiring money for investment might and do borrow several of what they need straight from savers by promoting to them bonds and stocks, but a lot of savers are actually hesitant to lend the money of theirs straight to business in exchange for these kinds of financial statements. In such a scenario, some intermediary is necessary to bring the deficit as well as surplus devices together. In fact, this's the top job of the financial system.

There's yet another vital angle to the job of the financial system in economic development, especially of banks, that have been popularised by notable economists as Schumpeter, Keynes as well as Kalecki. To Schumpeter, bank credit plays a crucial role in stimulating economic development. Based on him, "created credit" allows a business owner to proceed with the innovation of his fear of savings.

V. RECENT DEVELOPMENTS OF INDIAN FINANCIAL SYSTEM

The' financial system' is actually worried about the mobilization of the savings of the general public and providing of funds that are required to the needy persons as well as institutions for allowing the generation of items and also for provision of services as well as enables the exchange of money involving lenders, investors, and borrowers. The financial system which facilitates the motion of finance from the people with surplus money to the persons that want it's called a financial system. It consists of complex, directly associated services, markets, and institutions used to offer a regular and efficient linkage between depositors and investors. The financial systems run at national, global, as well as firm-specific amounts. It provides the public, private and financial instruments and government areas that could connect with huge assets & liabilities.

India has a monetary system which is actually managed by self-governing regulators in the sectors of banking, capital markets, insurance, different services sectors as well as opposition. In a selection of sectors, the federal government plays the job of the regulator. Ministry of Finance, Government of India appears after financial sector in India.

The top five innovations in the Indian financial system recently.

1. Withdrawal of legal tender status for Rs 500 and Rs 1000 notes

2. Setting up of the monetary policy committee

3. Passage of the goods and services tax bill

4. Passage of the insolvency and bankruptcy code

5. Thrust towards digitization of government payments.

VI. CONCLUSION

Based on this particular paper The Indian financial system has undergone a structural transformation with the past ten years. The financial industry has acquired strength, stability and efficiency by the blended impact of contests, regulatory actions, and policy atmosphere. While contests, consolidation as well as convergence have been realized as the important drivers of the banking industry in the coming years Financial system plays a tremendous role in the economic development of a nation. Financial markets contained 3 leading efficiencies for the benefit of growth and they're operational information and allocation effectiveness. Financial institutions are actually profit-maximizing companies that earn profits by obtaining money at interest rates less than they earn on the assets theirs.

REFERENCES

[1] Dr. G Suresh Babu (2018). “Role of financial system in economic development of a country” International Journal of Multidisciplinary Research and Development Online ISSN: 2349-4182, Print ISSN: 2349-5979 Volume 5 Issue 8; August 2018; Page No. 100-107

[2] Thamodaran V. (2017). The Emerging Issues to India’s Financial System, archers elevators on, 2017.

[3] Vaishali Doshi (2016). Assistant Professor, research paper on Indian financial system-opportunities and challenges.

[4] Sangeetha D. (2013) “Investment and its Role in Economic Development” International Journal of Science and Research (IJSR) Volume 4 Issue 9, September 2015 , ISSN (Online): 2319-7064

[5] Chakraborty, Indrani (2010). Financial Development and Economic Growth in India An Analysis of the Post-reform Period. South Asia Economic Journal. 11. Pp. 287-308. 10.1177/139156141001100206.

[6] Ang James B. (2008). A survey of Recent Developments in Literature of Finance and Growth, Journal of Economic Surveys; 22(3): pp. 536-576.

[7] Mishra R K, An Overview of financial services, financial services, emerging trends, Delta, Hyderabad, 1997.

[8] Abu-Qarn, A and A. Abu-Bader (2007). ‘Sources of Growth Revisited: Evidence from Selected MENA Countries’, World Development, 35(5): pp. 752–71.

[9] Mishkin, Frederic S. (2004). The Economics of Money, Banking, and Financial Markets", Boston: Addison Wesley, p. 517.

Corresponding Author

A. Zeeshan Ali*

Research Scholar, Department of Management, OPJS University, Churu, Rajasthan

baindasunil123@gmail.com