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STABILITY IN INDIAN FINANCIAL MARKET FOR SUSTAINABLE ECONOMIC GROWTH

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Abstract

Indian financial market run by regulators like RBI and SEBI has seen many crises like recent Ukraine war, Srilankan debt, inflationary trends and interest rate fluctuation since liberalization in 1991. The country has risen as fifth large economy with a good growth rate of 7.7% in 2021. The possible slow-down could be due to global political instability, war and impending energy shortage in Europe. [i] With inflation rate at 7.5% India's young demography and a healthy financial system should assist India to grow at a stable pace. If there are reasons for slow growth, it is unproductive use of resources, illiterate population and under developed status of women. [ii] Indian financial market governed by capital and money market has organized mobilization of public funds to infuse capital in industry, commerce, trade, technology, service, health and education. The challenges in leveraging credit and foreign investment in primary and secondary markets, bonds, securities and forex trading by both government, public and private financial institutions are many. To propel India in a growth path since pandemic needed ground breaking mechanism. Does financial technologies, break through AI based digital banking, cross and hybrid funds on OTC trading platforms for SME, MSME sector change the performance of the Indian financial market is the quintessential question that needs to be answered. The importance of having robust financial hubs to improve economic returns and reduce debt of public sector banks is felt in different sectors. Can diversification of healthy funds to industrial and service growth and FinTech in banking and finance sectors provide stability to sustain India's economic growth further? This article studies the impact of geo-political, economic, monetary policy initiatives that provides stability to financial markets. It is considered essential for sustainable banking and economic growth. Inducement of technological initiatives in financial transactions, green financial products and services, digital banking and Fintech system like UPI, Rupay etc., are analyzed to chart the importance of stable financial markets for sustainable economic growth. The need for new thinking in regulating international finance, stock exchange management, financial hubs, Fintech services, retail finance etc., are emphasized.

Key Words: Digital Banking, Sustainable, Financial Hub, FinTech, stable financial markets,

Introduction

Indian Financial Market:

According to Moody, India's GDP is 7.7% which is less than 8.3% of fiscal year 2021. The war between Ukraine and Russia, inflationary trends in Srilanka, oil crisis in Europe, rising cost, supply chain shortages and interest rates fluctuations caused the nation to grow slower. [iii]

India being the fifth largest economy grew from instability in 1991-92, to current growth rate. The pertinent question is does Indian economy really grow in terms of per capita income?

The 'Make in India' initiative has given impetus to states like Tamil Nadu and Maharashtra though India as a whole grew slowly due global economic slowdown. The Indian financial sector shows good signs. The bond market does well. Favorable policies of RBI as Central Bank and its timely interventions, regulates foreign investments and deposits. India's inflation rate is stable at 7.5% per annum. It hovers near reasonable interest rates and the base price lines. Economic trends show stable signs as GDP grows at a healthy 8.7% per quarter. [iv]

India's economic stability is expected to be good with a young demography. Consistent 13.5% growth rate per quarter since last decade has given good bottom line for the economy to grow at steady pace. [v]

Government & corporate bond, securities, interest rate, money markets and participation from public sector and external debt market are handled by public and private financial sector.

'Money Market' and 'Capital market' promote economic well-being. It mobilizes public funds for production, private and public investment for industrial activities and organize inflows and outflows of capital.[vi]

Indian economy being a mixed one where both private and public enterprises function through all economic activities including trade, commerce, finance, manufacture, R&D, banking, service sector leverage the financial markets to improve its potential.

Financial markets help develop infrastructure. It provides corporate finance for industries to invest, produce and trade nationally and globally. A healthy and growing financial system organizes borrowers and lenders to meet, share and allocate funds, provide timely information to all stakeholders, monitor market risk that improves annual performance.

The financial market is expected to be liquid to allow purchase and sale of securities, derivatives and other financial assets. In order to be stable may have to cut down costs, for better price realization. It provides trading platform to determine the price of shares and stocks, cost of transactions and mobilize funds to borrow and lend on timely basis. [vii]

As per reports, merger of Indian banks in 2020-21 has produced better financial product portfolio, asset management, valuation, market capitalization, economies of scale, reduction of costs and NPAs to enhance profitable returns. Indian financial market has further improved its portfolio through FDI equity inflow of 580 billion US $ in 2021. [viii]

Need for the Study

Indian financial Markets are the backbone for its economy. Its pivotal role in economic growth is well understood at all quarters. Recent mergers of banks, introduction of AI, trading software in stock exchanges, financial inclusion for all sections of society, introduction of green funds and bonds, measures to improve financial literacy among the learned and the mass, developing financial hubs and sustainable banking products, implementing systems to stabilize the financial markets is found essential for the need to study and analyze.

Scope of the Study

- Is Indian financial market stable?
- Does financial inclusion and literacy develop the economy?
- Can Chennai become a financial hub?
- What are the aims of sustainable banking?
- Is stable financial market possible?

Objectives of the Study

- To study the parameters of Indian Financial Market.
- To identity major issues in financial inclusion and literacy.
- To determine criteria of sustainable banking
- To evaluate measures in financial stability for sustained economic growth.

Research Methodology

Descriptive research methodology with extensive analysis of secondary data source of books, online and printed articles and websites.

Financial Inclusion

India being poor and developing economy, empowering its citizens' through financial inclusion is found necessary. The concept of saving amongst working class strengthens their economic well-being. Financial inclusion enables common citizen to acquire funds and services at a sustainable and affordable cost. It involves serving digitized financial services effectively. [ix]

India has introduced 'Financial Inclusion Index' to monitor implementation of its financial inclusion initiatives. It has indicators like 'ease of access', 'literacy', 'protection from fraud' etc. To bank the unbanked, GOI introduced 'National Mission for Financial Inclusion' in 2014 to open banking accounts for the poor. [x]

It has prioritized aggregating 'Fintech Service Providers' to provide banking and financial services, life skill enhancement, financial literary and formal education across all sections of the populace on time.

Micro credits, micro-insurance, money transfer and remittances in rural areas is now a possibility. Banks providing micro-credits enable them to pay off bad loans.

Economic growth across different sections of society is possible by technology oriented digital banking and online financial transactions. It scales to include more beneficiaries. Cost per transaction is reduced and different financial solutions can be clustered to various segments. For example remittance facilities to families of children who work abroad and live in remote corners of India.

Financial Literacy

Indians are 27% financially literate. India ranks low in creating financial awareness amongst its mass. Hence Government of India has taken initiatives to create awareness on savings, investing, decision making after careful and diligent research etc., Key components of financial literacy include how to save, earn, borrow, invest, protect and expense. [xi]

Financially literate people motivate others to gain knowledge in handling funds. Starting young to save is good option for life. Earning, saving, investing, reaping the rewards in terms of good returns sets people in proper course. [xii]

Financial Hub

Mumbai as India's financial center houses headquarters of many banks and financial institutions. It connects trade centers, shipping lines and air routes to inter-connect markets as it enjoys strategic geography, talented labor force, pro-trade business climate and an investment haven.

Chennai to become a financial center in South India, head-quarters of banks, insurance companies, mutual funds, NBFCs, trade and commerce, industrial hubs and economic zones as green field and brown field has to be further housed and developed. As Chennai is an automobile and electronics hub, global banking system can participate with entrepreneurial spirit to invite foreign investments. Providing stable economic climate and financial markets is vital to establish as a financial hub. [xiii]

With current regulatory norms, free movement of funds and finance from one center to another is cumbersome. But Chennai with IT companies, can aim to provide back office networking, internet infrastructure, data centers, cloud services and big data management to become a regional Fintech center.

Sustainable Banking

Sustainable banking is ethical, socially diverse and governs its operations to reduce risks. While banking is about money transactions, sustainable banking focuses not only on profit making but also being conscious of the planet and its environ. It supports environmental projects, renewable energy, green power, corporate social responsibility initiatives.[xiv]

Sustainable banking creates green funds to invest in renewing energy, reduce ecological damage and undertake afforestation projects. [xv]

It is a tremendous waste of scarce resource focusing on big industries, instead letting small scale and medium scale industries to develop rural local economy, provides wide spread employment to rural folks, reduce inequality and improve revenue in banking operations. [xvi]

Sustainable economic growth is pertinent for India. Banks can assist with feasible resource allocation. It is not just deposits and savings, but being responsible in allocating public funds to meaningful industrial growth. Being sustainable is second to focusing on allowing small entrepreneurs to receive funds for better circulation. [xvii]

Banking by a commoner may not improve profitability but its core principle of offering stable services to all is pertinent to the economy. Business needs funds to generate value for sustainable long term growth. Say for example, tanneries should recycle and not pollute waterways to reduce their impact on the environ. In banking business, green funds, services etc., impacts the economy by building ecological imprint. As service sector is key to economic growth, banking plays important role in redistributing wealth, capital formation, its allocation and managing the stock market. [xviii]

The question of social equity where each stakeholder including families, benefit from accountable banking. Accumulating wealth, equity with effort to reduce unwanted consumption contributes to equal growth across geography. Focusing on renewable energies enable small investors to invest and achieve sustainable industrial operations. Banks improve economic sustainability by investing in projects that make common a man's life better. Ecommerce and startup climate in India as the new trend, involve responsible banking. [xix]

Compared to developed economics, supporting entrepreneurial initiatives and funding patterns need to extend banking's core philosophy.

Financial Stability

"The primary objective of monetary policy is to maintain 'price stability' while keeping in mind the objective of growth." Preamble to the Reserve Bank of India Act 1934. [xx]

A stable financial system in India shall efficiently allocate vital resources, assess and manage financial risks, maintain employment levels close to the economy's growth rate and eliminate volatile price movements of financial assets. [xxi]

Feasible economic growth can be planned with efficient and functioning financial markets. A sound financial system works on strong pillars like faster access to funds, distribution of much needed finance to all economic activities and its availability for rightful economic activities. Financial markets function under normal pricing mechanism. The fiscal discipline of the nation should match public and private sector contribution to the economy. Proper accounting and audit of a financial system removes unwarranted diversification of funds. Volatile market is one reason for instability. Recently petroleum prices caused concern to base price index. If inflation is low, demand will improve and proper price mechanism can be implemented say integrating all the value chain the production cycle. Macro-economic factors like interest rate and government expenditure reduces short term price fluctuations. Recent crisis in Srilanka helps us to realize that stock market volatility due to geo-political crisis has to be handled with concrete steps.

Price stability in the market depends on the participation of various stakeholders. Housing prices decide the risk involved in local economy. The raw material price, product cost, production cost and the final price are also interlinked. [xxii]

The purchasing power of the economy is decided by long term growth initiatives. The financial market plays a key role in stabilizing demand and supply of funds for all sections of the society and not just promoting business.

Economic stability involves the economy to provide good housing, stable job, adequate wages and supply of goods and services for growing industries to thrive.

To move on sustainable growth path, utilizing local resources, reducing wastage, implementing efficient storage systems for a viable supply chain is needed to connect all corners of the nation. [xxiii]

Data Analysis and Interpretation

- Indian financial market has scaled in volume and quality.
- It uses latest financial technologies and AI based operating systems.
- It has reduced transaction costs and provides timely data on OTC trading platforms for small and medium scale participants.
- Slow growth is due to unproductive use of resources, illiterate population and under developed status of women.
- The income potential of private and public sectors is revived by monetary policy to post stable growth in last decade.
- Financial literacy enables consumers to leverage their purchase power across different fields of interest.
- Escalation of prices disrupts honest economic activities.
- Sustainable banking empowers the entire Indian banking system to induce growth across all sectors.
- Financial stability is achieved by consistent industrial and other economic activities.
- The role of Indian financial market is to stabilize the system with its credit, money, foreign exchange, derivatives, debt and capital services.

Findings of the Study

- Sustainable banking starts from responsible depositors.
- Financial empowerment results from diligent savings and consumerism.
- Investments in financial securities provide sustainable returns for better standards of living.
- Sustainable and viable growth can be achieved by conserving resources.
- Reducing dependence on debt and credit based instruments and focusing on enhancing equity based products will provide balanced risk and returns.
- Sustainable economic growth distributes wealth across all economic activities.
- Indian banks should finance projects and implement green fund say cashless transactions as a necessity.
- Green banking leverages financial technology to optimize its operations.
- Policies focusing on sustainability not to use papers but to recycle it and electronic products is still a concern for economy.
- Banks need to be conscious of its social obligations towards the common man.
- Disruptive technologies can be harnessed to provide sustainable banking and economic operations like Blockchain in postal, banking and insurance services.
- When all stakeholders in the market function efficiently, financial stability can be obtained

Suggestions

- Indian banks may participate in international financial markets with proper regulations.
- Liquidation of financial assets, foreign exchange and reduction in price volatility may enhance Indian financial markets and its trade volume.
- Credit and debt disbursal in both national and international market for trade and industrial investments can leverage Indian financial markets on par with international financial centers
- The need for timely funds either to irrigate, raise cattle or pay for their children tuition can be provided by utilizing FinTech and mobile technology.
- Digitalizing the entire financial markets and its transactional capabilities will reduces loss of cash based transactions.
- Price fixation by government may be essential for essential goods to stock prices stability.
- It is vital for financial inclusion and better handling of debt and equity to dissipate inequality in society.
- To be a fledgling international financial center, Chennai should host FinTech companies, accounting firms, headquarters of national banks and financial institutions.
- Banking sector has to be responsible to provide transparent governance and should be held accountable for wastage of funds.

- Further reduction of non-performing assets is a necessity which Indian banks need to focus.
- Price stability can be addressed by various means like technological infrastructure, online trading, real time transactions, fund flow and interest rate monitoring,
- To lower the pressure on prices, market intervention is required
- Liquidation of assets and debt frees money for various schemes is a necessity.
- Stability is feasible when the financial sector integrates major financial operations of banks, stock markets, forex exchanges and government participation in securities.

Conclusion

Financial Stability Report of RBI defines financial stability as, "from a macro prudential perspective; financial stability could be defined as a situation in which the financial sector provides critical services to the real economy without any discontinuity". [xxiv]

The employment rate and its productivity is key to stabilize an economy. High interest rates and inflation reduces the purchasing power of the nation. Human welfare is the ultimate goal of financial market stability and India needs to pay attention to institutional reforms. Cost of credit to small business and tradesmen has to be kept at levels manageable instead, money is unavailable for productive means. The flow of credit to right industries and economic activities has to ensure borrowing kept at manageable level. It is not just the regulator SEBI but the financial markets should correct itself to stabilize stock market volatility. Reduction of insider trading and price leaks is essential. Stabilization involves income distribution to all strata of society. Profits and revenue of corporates should benefit the economy where the vicious circle of money reaching the hands of few investors and bankers should change. Economic activities is not just production and consumption but 'just' returns to all players in the value chain. Fintech and Digital Banking do disrupt the financial market to serve the economic needs of the society. Faster and quicker, reliable service does indeed impact our lives for better. Hybrid service frameworks where banks distribute mutual funds and other products leverage existing infrastructure which fastens sustainable economic growth. Industrial sector benefiting from financial technologies and banking is one step into future where amalgamating the financial market with green products can sustain economic growth. Regulatory mechanism in India stabilizes the markets and the emphasize on establishing financial hubs for retailing financial services, funding major industrialization programs can be answered only with proper policies and its implementation. Major players like SBI, ICICI, HDFC Bank etc., should leverage their participation in international markets for better opening of our trade and commerce to global banks and funds. Interest rate mechanisms are a key input where India need to integrate with an eye on price stability. Capital inflows and forex reserves do stabilize our trade account but internal stock market operations of BSE and NSE have to match global standards. India's role in Asian region as a financial power is very much a subject of study and in future the way our country positions as a major financial hub will empower our financial markets further.

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