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An Analysis of Ways to Strengthen Financial System in Developing Indian Economy

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Abstract

The purpose of this paper is to encourage the financial system in the overall development of the country. The economic development of any country relies on its economic system, which incorporates its banks, stock markets, insurance sector, pension funds, and governments run financial organisation authoritatively. Businesses and industries square measure supported by the money systems because growth employed and successively increased economic activity and domestic trade. It enables the flow of funds from savers to investors to aid in wealth creation and development. Finance is that the key to attaining a semi-permanent growth prospective for any country. Throughout the last decade, the Indian economy has shown loads of progress from a closed, controlled, slowly growing economy to an additional open, additional liberalised and additionally one in all a quickly growing economy among the developed nations. The paper additionally shows that to form an economic system more practical and economical, the necessity of effective management, correct governance and management among the various elements of the economic system is needed.

Keywords: Indian Financial Market, Financial System, Economic Development, Financial Instruments.

Introduction

The paper relies upon to grasp how to strengthen the financial system in developing the Indian economy. The main function of a financial system is to provide a connection between savings and investments to create wealth. The financial system plays a crucial role in a country's economic development. The financial system is a system that allows the exchange of funds between lenders, investors and borrowers. Financial systems operate at national and global levels. It's a complex mechanism wherein the unused resources(savings) are allocated to the needed places in the most potential way. The Indian financial system is the most important aspect of the economic development of a country. It encourages both savings and investment. It ensures the supply of capital in the business.

The proper policy formulation regard to the financial system will greatly affect the overall development of a nation. Thus, the need for the adequate structure of a financial system will greatly influence the economic condition. A financial system covers financial transactions and the alternate cash among investors, lenders and borrowers. Financial structures are made of difficult and complicated fashions that portray financial services, establishments and markets that hyperlink depositors with investors. A financial system can be described globally, local or organisation precise level. The financial institutions enable the customers to make higher monetary choices by presenting effective monetary in addition to advisory services. It facilitates the development of a weaker segment of the society where rural improvement banks and cooperative societies. It aids in the growth of monetary belongings as a percentage of GDP and growing the variety of participants in the economic machine.

The economic system helps to mobilise and pool savings, promote payment services, manufacture and method data regarding investors and investment comes, modify the economic allocation of funds, monitor investments and facilitate to diversify, rework and manage risk. The Indian economy is one of the quickest growing economies among the developing countries within the world. From the last few decades, the Indian economy has been making rapid progress. The Indian economic system consists of economic establishments (like banks etc.), money markets (like cash and capital market etc.), money instruments (like bills, shares, debentures etc.) and money services (like bourgeois banking etc.)

The financial system performs various functions, i.e., Financial system plays a vital role in capital formation, provides money assets for goods and services, perform payment and settlement functions, Risk Management function, Provides necessary information to the operators or players of the market such as investors, individuals, business houses etc.

A financial system consists of financial institutions, financial intermediaries, financial markets, financial instruments etc.

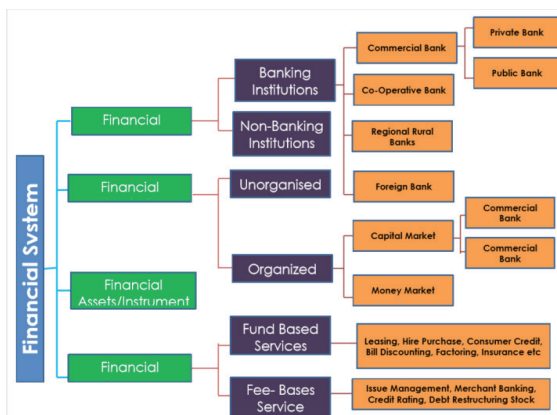


Table of Financial system

Weaknesses of Indian Financial System

Backward financial system: The major drawback of the Indian financial system is its underdevelopment. The financial sectors are not properly managed and guided. The growth rate of these sectors is also inadequate. The inability of coordinating financial institutions is the main reason

for the underdevelopment of the Indian financial system. The govt is the controlling authority of most financial institutions involved. The private sectors are also not given any importance. As there is a multiplicity of institutions in the Indian financial system, there is a lack of coordination in the working of these institutions.

Monopoly market structure: In India, only some institutions take the privilege to participate in the mainstream. Some financial markets are so large that they have created a monopolistic structure in the financial system. This leads to inefficiency in the working of these institutions and inhibits the growth of small institutions.

The dominance of development banks in industrial finance: The large financial institutions controlled by the govt. It is dominating in industrial financing today. Small and private agents and institutions get very few opportunities in this sector. Thus, coming in the smooth growth of an efficient financial system in the country.

Unhealthy financial practice- Large and developed institutions are mostly involved and participate in the financial activities. They have adopted unethical practices that is harmful to the growth of the financial system in India. The banks mostly provide capital in the form of term loans. This predominance of debt capital leads to an uneven capital structure for the borrowing business house.

Literature Review

Babu, G.S (2018) stated that the Financial system is a very important tool for the economic development of a country. It bridges the gap between savers and investors and helps in wealth creation. He also stated that the Indian financial system had acquired a lot over the past decade. But still, there is a need to improve Indian markets so that they can be equivalent to International markets.

Gasti, A.K (2017) stated that the Financial sector is the mainstream of any economy and shows that liberalisation can improve financial sector performance. Financial experts recommended that some major reforms be introduced to remain competitive and attractive for investors from across the world.

Jangra, S. (2017) said that the economic development of a country depends upon the

organisation of a developed financial system, and the Indian financial system is making tremendous growth and across the globe. It has transcended to remote and distant areas. She suggested a need for effective management and control among different components of the Indian financial system. Proper governance and regulation for the efficient working of the financial system is needed.

Naik, A.H. (2017) stated that Financial markets stated that Financial market plays a vital role in the economic growth of a country. It provides a platform for allocating financial resources in the economy. Financial markets ensure the efficient use of resources by mobilising savings for investment and facilitating capital inflows. He also stated that implementing the right set of financial market reforms is crucial to the health of the economy and financial markets reform should be given priority as it has wide applicability, affecting the whole financial system and economic growth of the country.

Kumar, M., E. Gireesh, A. Jithendra (2016) stated that Finance is the key to achieving long term growth for any country. The financial system performs important functions for the economy and links savings and investment. Indian financial markets present three efficiencies, i.e., allocation, information and operational efficiency for development.

Vadde, S. (2012) stated that A sound Financial system supports growth through mobilising and pooling savings, producing information about possible investments and allocating capital, monitoring investment and exerting corporate governance etc. Developing countries give importance to the financial sector. He also stated that Industries consists of smaller firms that grow faster in countries with the better developed financial sector. Microfinance and SME credit programs improve poor households and social welfare and reduce poverty.

RBI (2007) stated that the core characteristic of a well-developed financial system are to facilitate easy and efficient allocation of assets from savers to the ultimate users.

Objectives of the Study

1. To study the role and importance of the financial system in the economic development of a country.
2. To describe the weaknesses of the Indian financial system.
3. To explain the recent developments in the Indian Financial System.
4. To study the various constituents of the Indian financial system.
5. To study the Indian financial system and its functions.

Research Methodology

The study focuses on the financial system for the economic development of a country. The economic growth of every nation depends on the role of financial institutions and the ultimate financial development.

Quantitative research: The research will be done through the Questionnaire surveys, where the data will be collected from Banks, Accountants, Financial Institutions, Markets. The questionnaire will be provided to banks, accountants, Brokers, Investors. The questionnaire will be related to financial markets, the development of the Indian economy, financial inclusion.

Qualitative research: Here, a face-to-face interview will be conducted with investors, bankers, brokers to own their views. It will be related to how the financial system promotes capital growth, the role of the financial system in the country's development, growth of financial system beneficial for common people, Role of government in developing financial system.

Sources of Data

Primary source: The information will be gathered from the Questionnaire survey and face to face interviews. The data through the questionnaire will be collected from Bankers, Accountants which will be followed by the interview.

Secondary source: Here, we will refer to books, Reputed journals, magazines, newspapers, reports and websites. The secondary data will help us to know how the financial market plays an important role in developing the Indian economy, helps in the allocation of scarce financial and economic resources and strategies implemented by the government towards the financial system.

Conclusion

The conclusion summarises that Indian financial sector has changed a lot over the past decade. Indian financial sector plays a really necessary role in developing economy. The financial system performs varied functions in any country, which supplies a chance to the businesses and traders for getting and commerce the various monetary instruments and also the monetary securities. It plays a vital role in the allocation of the restricted resources accessible within the economy of any country. It acts as a mediator between savers and also the investors by mobilising the funds between them and helps within the determination of the costs of securities. Indian financial sector has non-heritable strength, efficiency, stability by the combined result of competition, regulative measures, and policy setting and also the advancement of reforms has been spectacular throughout the nineties. However, sure concentration is required to bring Indian markets on par with the foremost International markets. The economic system provides a platform for the lenders and borrowers to move with one another for their mutual edges, and this interaction results in capital accumulation and economic development of the country. Hence, there's a correlation between the expansion in the economic system and economic development. A financial market is the true indicator of the financial system in a country. The stability of markets is essential to ensure the smooth operation of market transactions, thereby enabling economic agents to raise and operate funds confidently. The paper also indicates that the financial system reforms should be given priority. At last, it can be deduced that a developed financial system leads the economic growth and development of the country.

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