

An explorative research on performance and prospects of Indian money market – Issues and Challenges.

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Introduction:

The Money market in India is a component of financial markets in India for short-term funds with maturity ranging from overnight to one year including financial instruments that are deemed to be close substitutes of money. Similar to developed economies the Indian money market is diversified and has evolved through many stages, from the conventional platform of treasury bills and call money to commercial paper, certificates of deposit, repos, forward rate agreements and most recently interest rate swaps.

The Indian money market consists of diverse sub-markets, each dealing in a particular type of short-term credit. The money market fulfills the borrowing and investment requirements of providers and users of short-term funds, and balances the demand for and supply of short-term funds by providing an equilibrium mechanism. It also serves as a focal point for the central bank's intervention in the market.

Research Methodology:

Major objective of the study: To examine the performance and prospects of commercial banks in India with special reference to State Bank of India.

Hypothesis:

H0: Performance and prospects of commercial banks do not have impact on economic development of Indian Economy.

H1: Performance and prospects of commercial banks have impact on economic development of Indian Economy.

Nature and source of data

The study has been conducted with the help of primary as well as secondary data base. Secondary data obtained through RBI Bulletin, Report on Currency and Finance and other Banking and Insurance journals. Primary data obtained with the help of interview schedule by conducting personal interview.

Results and Discussion:

For commercial banks, higher interest rates and resilient consumer spending in 2023 helped to shore up business lending and improve profitability. 2024 is set to be a very different year, even if the global economy glides towards a much hoped-for soft landing. Leading banks are keeping one eye on the macroeconomic uncertainties and the other on how artificial intelligence (AI) and other emerging technologies are opening new pathways to growth and profitability. Right now, operational and regulatory concerns are top of mind. Windfall gains from high net interest margins are eroding as commercial clients demand more yield from and security for their deposits. These gains may diminish further as inflation comes under control and interest rates are cut later this year. The commercial

banking investment environment is clouded by the challenges that corporates worldwide face to optimize supply chains, navigate technological disruption and reimagine their workforce. Large commercial clients have shown less appetite for borrowing and started to seek more security for their deposits.

In the SMB sector, especially in Europe, the number of non-performing loans is rising as consumer spending dries up. Banks thus need to fortify asset quality. Having navigated the uncertainties of both the Global Financial Crisis and the pandemic, banks are imagining what economies will look like when they are not propped up by the excessive consumer spending of the past decade. Is a normalization of economic cycles in view? Whatever comes next, a return to near-zero interest rates seems unlikely; bankers will need to adapt their approach to the market accordingly. Meanwhile, 2023's high profile banking failures, including Silicon Valley Bank and Credit Suisse, are stimulating intensive new regulatory measures. Throughout 2024 and beyond, the need to comply with more stringent regulations and risk management requirements will become a cost burden for banks that have not simplified their technology and business architectures

In 2024, the themes that dominated commercial banking for the past few years, from the urgency of escalating regulatory pressures and the imperative of cost transformation to the critical need to perfect data strategy will all converge as commercial banks accelerate efforts to scale AI, and in particular, generative AI. We are on the cusp of an opportunity to reinvent how banks deliver services to commercial clients— one that comes just at a moment when a return to the 2019 -era norm is palpable. The risks of further systemic shocks cannot be ruled out, given the turbulence in the geopolitical landscape. But the aftershocks of the pandemic are over, with signs that macroeconomics and governments are reverting to the norms that prevailed before the pandemic and possibly even before the Global Financial Crisis. In this environment, commercial banks and their clients will grapple with similar opportunities and risks. Commercial banks that successfully transform their operations, workforce and client experience and become digital and data-first leaders have reason to be optimistic. They will become partners of choice for businesses that are traversing a landscape characterized by seismic technology shifts in 2024 and beyond.(RBI Bulletin,2024)

Performance and prospects of State Bank of India:

State Bank of India (SBI) is an Indian multinational public sector bank and financial services statutory body headquartered in Mumbai, Maharashtra. It is the 48th largest bank in the world by total assets and ranked 178th in the Fortune Global 500 list of the world's biggest corporations of 2024, being the only Indian bank on the list. It is a public sector bank and the largest bank in India with a 23% market share by assets and a 25% share of the total loan and deposits market. It is also the tenth largest employer in India with nearly 250,000 employees. In 2024, the company's seat in Forbes Global 2000 was 55.

On 14 September 2022, State Bank of India became the third lender (after HDFC Bank and ICICI Bank) and the seventh Indian company to cross the ₹5 trillion market capitalization on the Indian stock exchanges for the first time. The largest public lender in the country reached a milestone in April 2024, when its market capitalization surpassed ₹7 trillion, making it the second public sector undertaking (PSU) to do so, after Life Insurance Corporation of India. In June 2024, SBI crossed all time high market capitalisation of ₹8 trillion (8 lakh crore INR) becoming the 7th Indian company to cross this milestone, and third Indian bank after HDFC and ICICI in terms of market capitalisation. As of August 2024, State Bank of India has a market cap of ₹7.276 Trillion. This makes it the world's 200th most valuable company by market cap. The Reserve Bank of India (RBI) has identified SBI, HDFC Bank, and ICICI Bank as Domestic Systemically Important Banks (D-SIBs), which are often referred to as banks that are "too big to fail".

Domestic

As per SBI Official website data, SBI has 22,405 branches in India. In the financial year 2012–13, its revenue was ₹2.005 trillion (US\$24 billion), 95.35% of which came from domestic operations. Similarly, domestic operations contributed to 88.37% of total profits for the same financial year.

Under the Pradhan Mantri Jan Dhan Yojana of financial inclusion launched by Government in August 2014, SBI held 11,300 camps and opened over 30 lakh (3 million) accounts by September, which included 21 lakh (2.1 million) accounts in rural areas and 15.7 lakh (1.57 million) accounts in urban areas.

International

As of 2014–15, the bank had 191 overseas offices spread over 36 countries having the largest presence in foreign markets among Indian banks.

- SBI Australia
- SBI Bangladesh
- SBI Bahrain¹
- SBI Botswana The SBI Botswana subsidiary was registered on 27 January 2006 and was issued a banking licence by the Bank of Botswana on 29 July 2013. The subsidiary handed over its banking licence and closed its operations in the country.
- SBI Canada Bank was incorporated in 1982 as a subsidiary of the State Bank of India. SBI Canada Bank is a Schedule II Canadian Bank listed under the Bank Act and is a member of the Canada Deposit Insurance Corporation.
- SBI China
- SBI (Mauritius) Ltd SBI established an offshore bank in 1989, State Bank of India International (Mauritius) Ltd. This then amalgamated with The Indian Ocean International Bank (which had been doing retail banking in Mauritius since 1979) to form SBI (Mauritius) Ltd. Today, SBI (Mauritius) Ltd has 14 branches – 13 retail branches and 1 global business branch at Ebene in Mauritius.
- Nepal SBI Bank Limited
- Nepal SBI Bank Limited

In Nepal, SBI owns 55% of the share. (The state-owned Employees Provident Fund of Nepal owns 15% and the general public owns the remaining 30%) Nepal SBI Bank Limited has branches throughout the country.

SBI Sri Lanka now has three branches located in Colombo, Kandy and Jaffna. The Jaffna branch was opened on 9 September 2013. SBI Sri Lanka is the oldest bank in Sri Lanka; it was founded in 1864.

In Nigeria, SBI operates as INMB Bank. This bank began in 1981 as the Indo–Nigerian Merchant Bank and received permission in 2002 to commence retail banking. It now has five branches in Nigeria.

In Moscow, SBI owns 60% of Commercial Bank of India, with Canara Bank owning the rest. In Indonesia, it owns 76% of PT Bank Indo Monex. State Bank of India already has a branch in Shanghai and plans to open one in Tianjin.

In Kenya, State Bank of India owns 76% of Giro Commercial Bank, which it acquired for US\$8 million in October 2005.

SBI South Korea In January 2016, SBI opened its first branch in Seoul, South Korea.

SBI South Africa

SBI UK Ltd

State Bank of India branch at Southall, United Kingdom

SBI USA In 1982, the bank established a subsidiary, State Bank of India, which now has ten branches—nine branches in the state of California and one in Washington, D.C. The 10th branch was opened in Fremont, California on 28 March 2011. The other eight branches in California are located in Los Angeles, Artesia, San Jose, Canoga Park, Fresno, San Diego, Tustin and Bakersfield.

Listings and shareholding

As of June 2024, the Government of India held around 57.54% equity shares in SBI. The Life Insurance Corporation of India, itself state-owned, is the largest non-promoter shareholder in the company with 9.02% shareholding.

Shareholders	Shareholding
Promoters: Government of India	56.92%
FIIs/GDRs/OCBs/NRIs	12.35%
Banks & Insurance Companies	11.78%
Mutual Funds & UTI	11.96%
Others	6.37%
Total	100%

The equity shares of SBI are listed on the Bombay Stock Exchange, where it is a constituent of the BSE SENSEX index and the National Stock Exchange of India, where it is a constituent of the CNX Nifty. Its Global Depository Receipts (GDRs) are listed on the London Stock Exchange.

Employees

SBI is one of the largest employers in the world with 232,296 employees as of 31 March 2024. Out of the total workforce, the representation of women employees is nearly 27%. The percentage of officers, associates, and subordinate staff was 47.4%, 38.4%, and 12.77% respectively on the same date. Each employee contributed a net profit of ₹2,620,460 (US\$31,000) during FY 2023-24.

Total Shareholders Fund State Bank of India Mar-2024 Total Shareholders Fund is Rs 377,247 Cr which is growth of 15.2% YoY.

Total Assets State Bank of India Mar-2024 Total Assets is Rs 6,179,694 Cr which is growth of 12.0% YoY.

Indicator	Graph	CAGR 3 Yrs	CAGR 5 Yrs	Mar '24
Total Shareholders Funds		14.1%	11.3%	377,246.5
Total Current Liabilities		16.6%	14.7%	288,809.7
Total Capital Plus		10.9%	10.9%	6,179,693.9
Fixed Assets		3.5%	1.7	42,617.3

Total Current Assets		12.4%	10.8	4,465,737
Total Assets		10.9%	10.9	6,179,693.9
Contingent Liabilities plus Commitments		11.9%	16.4%	2,389,320.8

Top Indian banks in 2024 based on market cap:

The below table showcasing the top 10 banks in India, ranked by their market caps (as of October 24, 2024).

Rank & Bank	Type	Market Cap (Rs Lakh Crore)
#1 HDFC Bank	Private	13.36
#2 ICICI Bank	Private	8.82
#3 SBI	Public	7.02
#4 Axis Bank	Private	3.60
#5 Kotak Mahindra Bank	Private	3.48
#6 Bank of Baroda	Public	1.23
#7 Punjab National Bank	Public	1.11
#8 IndusInd Bank	Private	0.98
#9 Indian Overseas Bank	Public	0.98
#10 Canara Bank	Public	0.89

Conclusion:

Money Market refers to that part of the broader Financial Market in which highly liquid and short-term financial assets with maturity up to 1 year are traded. Thus, it caters to the short-term borrowing needs of working capital. In money market trading in very short-term investments occur. It involves continuous large-volume trades between institutions and traders at the wholesale level. It includes money market mutual funds bought by individual investors and money market accounts opened at banks at the retail level. The money market is characterized by a high degree of safety and relatively low rates of return on investment. The money market is one of the pillars of the global financial system. Major objective of the study is to examine the impact of performance of Indian money market on economic growth. The study conducted with the help of secondary as well as primary data base. Secondary data base obtained through Commercial banks and primary data base obtained through conducting personal interview to commercial banks. It involves overnight swaps of vast amounts of money between banks and the U.S. government. The majority of money market

transactions are wholesale transactions that take place between financial institutions and companies. Institutions that participate in the money market include banks that lend to each other and to large companies in the euro currency and time deposit markets. They also include companies that raise money by selling commercial paper into the market and investors who purchase bank CDs as a safe place to park money in the short term. Market efficiency refers to a market where prices represent all relevant financial information about an underlying asset or security. **The Money Market, as a crucial segment of the financial market, is integral for managing liquidity and funding short-term obligations for banks, governments, and corporations.** Because of the short maturity period, it offers high liquidity of securities, and hence money market investments are also called cash investments. Major participants in the Organized Money Market in India include – the RBI, Banks, NBFCs, Mutual Funds, Insurance Companies, etc. Major participants in the Unorganized Money Market in India include – Local Moneylenders, Chit Funds, etc. In conclusion, the Money Market plays a pivotal role, serving as a mechanism for the efficient management of liquidity and short-term funding needs for individuals, businesses, and governments and it facilitate for the smooth functioning of the financial system.

Suggestion:

Performance and prospects of Indian financial institutions surely has its favourable impact to strengthen Indian money market which will be helpful for Indian Economy to expect more advanced Gross Domestic Product (GDP) growth rate.

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