CALL MONEY AND COMMERCIAL BILL MARKET

CLASS: M.COM 2nd SEMESTER **UNIT: II**
COURSE NO: COM15201CR **LESSON NO. 08**

OBJECTIVES:

After reading the lesson the reader is expected to understand.

- Call Money Market
- Commercial Bill Market

STRUCTURE

8.1. INTRODUCTION:

The short term credit is given against securities. As banks provide finance they acquire certain assets. Each asset is acquired in a separate sub market of the money market, for example money at call and short notice in the call money market etc.

8.2. CALL MONEY MARKET:

Call money market is that part of the national money market where the day to day surplus funds, mostly of banks are traded in. The loans made in this market are of a short term nature, their maturity varying between one day to a fortnight and they are usually unsecured. The rate of interest depends on the demand and supply of funds in the call money market.

Intra-bank call money is very common in India. In additions to that call loans are usually given to
(1) The bill market and
(2) For the purpose of dealing in bullion and stock markets.

Call money markets are mainly located in big industries and commercial centres like Mumbai, Kolkata, Chennai, Delhi and Ahmedabad. Apart from the well organized markets in these cities, there a large number of local markets developed and operated by indigenous local bankers when large payments are to be made. The trading on the call money market is characterized by seasonal variations. The need for all money borrowing is the highest around March every year, due to withdrawals of deposits in March to meet the year end tax payments and withdrawal of funds by

financial institutions to meet their statutory obligations. The need for call money also increases with an increase in cash reserve ratio.
Borrowers and Lenders in a call market contact each other over telephone, where they arrive at a deal specifying the amount and the interest.

Purpose of Loans
In India call loans are given for the following purposes:-
- (i) To commercial banks to meet large payments, to maintain liquidity as per RET norms.
- (ii) To the stock brokers and speculators who deal in stock exchange.
- (iii) To the bill market for meeting matured bills.
- (iv) To the discount and finance, house of India and securities trading cooperation of India to activate the call market.
- (v) Reputed individuals for trade purpose.

The participants in this market can be classified into two broad categories which are as under:-
- (i) Those permitted to act as both lenders and borrowers of call loans i.e. commercial banks cooperative banks. The discount and finance house of India (DFH) and STCI fall in the first category.
- (ii) In the second category LIC, UTI, GIC, IDBI, NABARD, specified mutual funds etc., are included. They can only lend, they cannot borrow in the call market.

Benefits of Call Loan Market
Commercial banks play dominate role in the call loan market. The benefits available to them are as follows:-
- (i) Money can be called back at any time, hence highly liquid.
- (ii) Bask can earn high profits by lending their surplus funds.
- (iii) Call markets enables bank to maintain minimum reserve requirements with less idle cash banks earn more.
- (iv) They are safe as participant banker have a strong financial bank.
- (v) It helps central bank in carrying out open market operations.

Drawbacks of Call Loan Market
The call market in India suffers from the following drawbacks:
- (i) It is confined to big commercial centres.
- (ii) The call markets in different centres are not fully integrated.
- (iii) Call rates vary to a great extent in different centres in different seasons.

8.3. COMMERCIAL BILL MARKET:

The bill market is the market where short term commercial papers are bought and sold. The most important types of short term papers are the bills of exchange and the treasury bills. A bill of exchanges is a written unconditional order singed by the drawer requiring the party to whom it is addressed, to pay on demand or at a fixed or determinable future time a definite sum of money to the order of a specified person or to the bearer. Bills of exchange and discounted and rediscounted by commercial banks to lend credit to the bill holder or to borrow from the credit bank. Bills of exchange are commercial papers, while treasury bills are government papers.

Benefits of Commercial Bill Market

It includes the following:-

(i) Bills are highly liquid assets can be connected into cash easily.
(ii) Bills are self liquidating in character since they have a fixed tenure.
(iii) Bills are drawn and accepted by businessmen and are honoured on due date.
(iv) They represent advances for a definite period not exceeding 6 moths. This enables financial institutions to invest their surplus funds profitably.
(v) In case the bills are dishonored the legal remedy is simple.

Drawbacks of Commercial Bill Market:

It includes:-

(i) Absence of bill culture in India people prefer O.D and cash credit to bill financing.
(ii) Stamp duty discourages the use of bills.
(iii) There is no active secondary market for bills.
(iv) There are no discount houses or acceptance houses in India.

The basic purpose of a bill is to reimburse the seller while the buyer delays payment. In India bill market is highly underdeveloped. The two main factors which have blocked the growth of bill market are

(i) Popularity of Cash Credit system and

(ii) The unwillingness of the large buyer to bind himself to payment discipline associated with the commercial bill.

There are also a number of other factors like lack of uniformity in drawing bills, high stamp duty on issuance and the practices of sales on credit without specified time limit. Reserve Bank of India has made attempts to develop the bill market but it has not met with desired results. The old bill market scheme introduced in January 1952 was not correctly designed to develop a bill market. It only provided for further accommodation to banks in addition to facilities they had already enjoyed. Reserve Bank of India introduced a new bill market scheme in 1970. It has been modified from time to time. The features of the new scheme includes

(i) The bills covered under the scheme are genuine trade bills and

(ii) The scheme provides for their rediscounting. Even this scheme has not been successful.

8.4. SUMMARY:

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8.5. IN-TEXT ACTIVITY:

1. What do understand by intra-bank call money?

What are the benefits of Call Loan Market?

8.6. SELF ASSESSMENT QUESTIONS:

1. Write a note on Call Loan Market.
2. Briefly discuss Commercial Bill Market.

8.7. FURTHER READINGS:

1) Goldsmith, R.W., The Flow of Capital Funds in the Post War Economy, New York, Columbia, 1965.
2) Bennet, R.L., Financial Sector and Economic Development, Baltimore, John Hopkins Press, 1965.

3. Van Home, J., *Functions and Analysis of Capital Market Rates,* Prentice Hall, New Jersey, 1970.
4) Smith, *P.F., Economics of Financial Institutions and Markets,* Richard D. Irwin, Illinois,
5) Goldsmith, R.W., *Financial Institutions,* New York, Randon, I969
6) Chandler, V.L., *The Economics of Money and Banking.*
7) Goldsmith, R.W., *Financial Structure and Development,* New Haven Yale University Press, 1969; also Bennet, R.L. op.cit; and Srinivasan, *Financial Structure and Development,* Concept, New Delhi, 1976.
8) Khan, M.Y Indian Financial System, Tata McGraw Hill Publishing Company Limited, 2004.