THE ROLE OF FINANCIAL MARKETS FOR ECONOMIC GROWTH – A STUDY

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Abstract: The development of any country depends on the economic growth the country achieves over an epoch of time. Economic development deals about savings and production and also the scope of Gross Domestic Product in a country. Only after this grows, the people will experience growth in the form of enhanced standard of living, namely economic development. Financial Markets help to competently immediately the flow of investments and savings in the economy in customs that smooth the progress of the boost of capital and the produce of goods and services. The incorporation of highly sensitive monetary markets and institutions, as well as a diverse group of financial products and instruments, suits the needs of borrowers and lenders and therefore the overall economy. In this paper I will explain about the significance of financial markets in Economic Growth. All through the financial crises of the last decade, we all axiom that a weak financial system not only makes a country open to international investment flows more at to crisis, but also aggravate the costs of any financial calamity that does occur. In the financial system funds flow from those who have leftover funds to those who have a deficiency of funds, either by direct, market-based financing or by indirect, bank-based finance.

Key words: Financial Markets, Investments, Economic Growth, Financial Crisis

INTRODUCTION

Ensuring economic growth and development is a most important objective of all countries. According to the World Bank, an estimated USD 4.0 trillion in annual investment is required for developing countries to attain the Sustainable Development Goals (SDGs) by 2030. In light of the investment prerequisite, there is a larger need to develop and reinforce capital markets in order to mobilize marketable financing. The role that capital markets have in financing communications development, large enterprises, and Small and Medium Enterprises (SMEs), and the relations with economic growth, are more and more being highlighted.

Financial Market comprises securities exchange, commodities trading, and trade in their particular derivatives. Banking is a financial institution but discernible from a financial market based on their roles which are however balancing where parallel growth exists, and both serve as truss for economic nourishment. An asymmetrical growth in favour of banking practice creates a usurpation of functions, confusion of roles, and reduction of the other's economic importance into a diminutive. Financial markets play an essential role in the distribution of resources and procedure of modern economies. Financial markets generate products that provide a go back for those who have excess funds making these funds obtainable to those who need additional money .They make available a marketplace that bridges the fissure among borrowers and lenders. Thoughts about economic development has excogitate over the past half century, partly in response to perceptions of poverty and hypothesize about its causes and somewhat through the experience of development in countries both successful and unsuccessful. During the past decade, much of the trend and the emphasis have been placed on understanding the role of the financial sector, in part because earlier lessons were educated, and in part as a result of the financial crises of the 1990s. Considerate of the role of the financial sector has improved noticeably, but research and insights continue to accumulate. As that has happened, some have turned to "governance issues" as "the key" to development, but lessons about the importance, and key role, of the financial sector in development have certainly been learned.

There has been no time at which economists and policy makers denied the role of the financial sector. However, it is fair to say that its importance was systematically underestimated prior to the experience of the 1990s. The economic system comprises all curb markets, instruments and institutions. In this paper I would like to explain whether the financial markets for economic growth is important. According to developing countries comparability, individual country studies as well as industry and firm level analyses, a positive link exists between the complexity of the financial system and economic growth. While some gaps stay behind, that the economic system is crucially linked to economic performance.

RESEARCH METHODOLOGY

The paper is based on the secondary sources of data, which have been obtained from various environment education discussions, books, papers, published articles in journals, web articles (internet sources), past studies and newspapers etc.

What are financial markets?

A financial market is a souk where trading or exchange of various financial instruments and assets takes place. The price of these assets is dependent on its demand and supply in the respective market. All the financial and economic activities in a country are needy upon these markets. To utter it more evidently, let us envision a bank where an individual maintains a savings account. The bank can use their money and the money of other depositors to credit to other individuals and organizations and charge an interest fee. The depositors themselves also create and observe their capital grow through the interest that is paid to it. Consequently, the bank serves as a monetary market that benefits both the depositors and the debtors.

Types of Financial Markets

1. Stock market

The stock market trades shares of rights of public companies. Each share comes with a value, and investors make money with the stocks when they execute well in the marketplace. It is easy to buy stocks. The real challenge is in choosing the right stocks that will earn money for the investor.

2. Bond market

The bond market offers opportunities for companies and the government to protected currency to capital a project or investment. In a bond market, investors buy bonds from a company, and the company precedes the quantity of the bonds within an agreed period, plus interest.

3. Commodities market

The merchandise market is where traders and investors buy and sell natural resources or supplies such as corn, oil, meat, and gold. A precise market is shaped for such capital because their price is erratic. There is a merchandise futures marketplace in which the price of items that are to be delivered at a given future time is already identified and sealed today.

4. Derivatives market

Such a market involves derivatives or contracts whose price is based on the marketplace value of the asset being traded. The futures mentioned above in the merchandise market are an example of a derivative.

Role of Financial Markets for Economic Growth

Financial markets are also the dynamic markets for capital in the economy. Capital is required by businesses as an input into the production process, so that the goods and services required to satisfy the economy's wants can be produced. Financial Markets provide an efficient process by which income that is not used for consumption can still contribute to aggregate demand. Savings from customers, businesses and governments can not only be used for future consumption, but also to invest in capital, which increases the productive capacity of the economy.

Savings-investment rapport

The capital markets add to the quantity of long-term savings (pensions, life covers, etc.) that is channeled to long-term investment. Capital markets facilitate the contractual savings industry (pension and provident funds, insurance companies, medical aid schemes, collective investment schemes, etc.) to organize long-term savings from small individual family unit and channel them into long-term investments. It fulfills the relocate function of current purchasing power, in economic form, from surplus sectors to shortage sectors, in replace for reimbursing a greater purchasing power in future. In this way, the capital markets enable corporations to raise funds to finance their investment in real assets. The implication will be an increase in efficiency within the economy leading to more employment, increase in collective consumption and hence growth and development. It also helps in diffusing stress on the banking system by matching long-term investments with long-term capital. It encourages broader ownership of productive assets by small savers. It enables them to benefit from economic growth and wealth allocation, and provides avenues for investment opportunities that give confidence a saving culture critical in increasing household savings and investments that convert to economic growth,

To attain economic development, a country needs more investment and production. This can happen only when there is a facility for savings. As, such savings are channelized to productive resources in the form of investment. Here, the role of financial institutions is important, since they induce the public to save by offering attractive interest rates. These savings are channelized by lending to various business concerns which are involved in production and distribution.

Facilitating well-organized Allocation of Scarce Financial Resources: The capital markets make possible the well-organized allotment of scarce financial resources by offering a large variety of financial instruments with different risk and return characteristics. This aggressive pricing of securities and large range of financial instruments allows investors to enhanced assign their funds according to their own risk and return appetites, in that way supporting economic growth,

Government Securities market

Financial system enables the position and inner governments to elevate both short-term and long-term funds through the issue of bills and bonds which carry attractive rates of interest along with tax concessions. The budgetary break is filled only with the help of government securities market. Thus, the capital market, money market along with foreign exchange market and government securities market facilitate businessmen, industrialists as well as governments to assemble their credit requirements. In this way, the development of the economy is ensured by the financial system.

Financing efficacy and Infrastructure expansion:

The capital markets also supply evenhandedness capital, debt capital and infrastructure development capital that have strong socio-economic benefits through development of necessary utilities such as roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. These projects are ideal for financing through the capital markets via long dated bonds and asset backed securities. Infrastructure expansion is a needed condition for long-term sustainable growth and development. In addition, capital markets augment the competence of capital allotment by ensuring that only projects that are deemed profitable can successfully attract funds. This will, in turn, improve competitiveness of household industries and enhance ability of domestic industries to compete globally, given the current impetus towards global incorporation. The result will be an increase in domestic productivity which may spill over into an increase in exports and, therefore, economic growth and development.

Creating a connection among Suppliers of Capital and Users: The make contact with between agents with a financial deficit and the ones with financial surplus can obtain place directly through direct financing, but also through a financial mediator in form of indirect financing, which is a situation whereby specific operators make possible the correlation between the real economy and the financial market. In this case, the financial mediators could be banks, investment funds, pension funds, insurance companies, or other non-bank financial institutions,

Financing Private Public Partnerships, "PPPs": Capital markets promote PPPs, thereby hopeful contribution of private sector in dynamic investments. The need to shift economic development from public to private sector to enhance economic output has become predictable as resources continue to diminish. It assists the public sector to close the resource gap, and balance its effort in financing essential socio-economic development, through raising long-term project-based capital. It also attracts foreign portfolio investors who are critical in supplementing the domestic savings levels and who facilitate inflows of foreign financial resources into the domestic economy, thereby at the bottom of economic growth.

Employment Growth is boosted by financial system

The frequency of financial system will make more employment opportunities in the country. The capital market which is a part of financial system provides working capital to the businessmen and manufacturers due to which manufacture increases, consequential in generating more employment opportunities. With opposition picking up in various sectors, the service sector such as sales, marketing, advertisement, etc., also pick up, leading to more employment opportunities. A mixture of financial services such as hire, factoring, commercial banking, etc., will also generate more employment. The growth of trade in the country also induces employment opportunities.

Financial system ensures reasonable expansion

Financial development requires a balanced growth which means growth in all the sectors concurrently. Primary sector, secondary sector and tertiary sector require sufficient funds for their growth. The monetary system in the country will be geared up by the authorities in such a way that the available funds will be dispersed to all the sectors in such a way, that there will be a balanced growth in industries, agriculture and service sectors.

Financial system helps in economic discipline and control of economy

It is all the way through the financial system, that the government can make a pleasant business environment so that neither too much of inflation nor gloominess is experienced. The industries should be given suitable protection through the financial system so that their credit supplies will be met even during the difficult period. The government on its part can raise sufficient capital to meet its financial commitments so that economic development is not in a pathetic position. The government can also control the financial system through appropriate legislation so that surplus or speculative transactions could be avoided. The growth of black money could also be minimized.

Financial system's role in balanced regional development

Through the financial system, toward the back areas could be developed by provided that various concessions or sops. This ensures a balanced growth throughout the country and this will alleviate political or any other kind of turbulence in the country. It will also check immigration of rural population towards towns and cities.

Role of financial system in attracting overseas capital

Financial system promotes capital market. A self-motivated capital market is capable of attracting resources both from domestic and abroad. With more capital, investment will expand and this will speed up the economic expansion of a country.

Financial system's role in Economic Integration

Financial systems of different countries are capable of promoting economic amalgamation. This means that in all those countries, there will be common trade and industry policies, such as common investment, trade, commerce, commercial law, employment legislation, old age pension, transport co-ordination, etc. We have a standing example of European Common Market which has gone to the extent of creating a common currency, representing several countries in Western Europe.

Financial system helps in standardized interest rates

The economic system is capable of bringing a uniform interest rate all over the country by which there will be fair society of funds between centers which will ensure accessibility of capital for all kinds of industries.

Conclusion

Financial market's objective is wealth creation and the liquidity generated from its actions help not only to support savings, but the explosion of capital sources in the market, for investment needed to arouse innovativeness and enterprise. Venture, liquidity flow, volatility control, and market close proximities are all mutually dependent and inures from a principled legal and structural support which allows inherent mechanisms to play, and guarantee investment exchangeability. Investors look for this atmosphere, and foreign governments welcome their citizens' entry into such market. Well-developed capital markets create a sustainable, low-cost allocation instrument for multiple financial products and services across the country. This in revolve helps the business community to elevate long-term funds that are used to pay for capital goods, thereby propelling their expansion and at the bottom of the country's economic growth. Capital markets also improve efficient financial intermediation. It increases mobilization of savings and therefore improves efficiency and volume of investments, economic growth and development. Capital markets can create greater financial inclusion by introducing new products and services tailored to suit investors' preference for risk and return, as well as borrowers' project needs and risk enthusiasm.

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