



# Functions of Call Money Market



- **Liquidity Management:**
- One of the primary functions of the call money market is to assist financial institutions, especially banks, in managing their short-term liquidity needs.
- Institutions can borrow funds on a short-term basis to cover temporary shortages or lend excess funds to earn interest.



## Interest Rate Discovery:

The call money market plays a crucial role in the discovery of short-term interest rates. Interest rates in this market are highly sensitive to changes in the overall liquidity conditions, reflecting the supply and demand for funds in the short term.

- **Monetary Policy Implementation:**

Central banks use the call money market as a tool for implementing monetary policy. By influencing short-term interest rates in this market, **central banks can control the money supply, manage inflation, and achieve their monetary policy objectives.**



- **Arbitrage Opportunities:**

Traders and financial institutions often engage in arbitrage in the call money market. They may borrow funds at lower rates in this market and invest in higher-yielding assets, taking advantage of temporary interest rate differentials.

- **Interbank Transactions:**

The call money market facilitates interbank transactions, allowing banks to lend to or borrow from each other. This helps banks meet their reserve requirements and maintain a balanced liquidity position.



# Risk Management:



Financial institutions use the call money market to manage their liquidity risk. By participating in this market, banks can quickly address short-term funding gaps or surpluses, reducing the likelihood of financial instability.

- **Benchmark for Short-Term Rates:**

The interest rates determined in the call money market often serve as benchmarks for other short-term interest rates in the financial system. This influences rates on various financial instruments, including certificates of deposit and short-term bonds.



- **Facilitates Trade Settlements:**

- The call money market provides a platform for institutions to settle trades and transactions. It ensures that financial institutions have the necessary liquidity to meet their settlement obligations promptly.

- **Promotes Efficient Capital Allocation:**

- By allowing institutions to efficiently manage their short-term liquidity needs, the call money market contributes to the overall efficiency of capital allocation in the financial system. This, in turn, supports economic growth and stability.

- **Crisis Management:**

In times of financial stress or crises, the call money market can serve as a crucial tool for institutions to access immediate funds, helping them navigate challenging situations and avoid disruptions in financial markets.