EDITORIAL

Greetings!

Financial system plays the key role in any economy by stimulating economic growth, influencing economic performance of the factors affecting economic welfare. It facilitates the flow of funds from the areas of surplus to the areas of deficit. It is concerned about the money, credit and finance. In the words of Van Horne, "financial system allocates savings efficiently in an economy to ultimate users either for investment in real assets or for consumption".

The Indian Financial System before independence was closely resembled with the traditional economy. In a traditional economy the per capita output is low and constant. Some principal features of the Indian Financial system before independence were: closed-circle character of industrial entrepreneurship, a narrow industrial securities market, absence of issuing institutions and no intermediaries in the long-term financing of the industry. Outside savings could not be invested in industry. Indian Financial System to supply finance and credit was greatly strengthened in the post-1950s. Significant diversification and innovations in the structure of the financial institutions have accompanied the growth of Indian Financial System.

In the past 50 years the Indian financial system has shown tremendous growth in terms of quantity, diversity, sophistication, innovations and complexity of operation. Indicators like money supply, deposits and credit of banks, primary and secondary issues, and so on, have increased rapidly. India has witnessed all types of financial innovations like diversification, disintermediation, securitization, liberalization, and globalization etc. As a result, today the financial institutions and a large number of new financial instruments lead a fairly diversified portfolio of financial claims.

According to the structural approach, the financial system of an economy consists of three main components:

☆ Financial markets

☆ Financial institutions

☆ Financial regulators

Over the last decade, regulatory reforms in India have focused on promoting shareholder participation in corporate decision-making. Regulation of financial markets may also be needed to protect against "irrational behaviour" by market participants. One of the lessons that can be learned from various financial crises is that irrational behavior plays a key role in creating an exacerbate asset market boom and bust cycles. The expectations of market participants play a crucial role in their demand and supply decisions. Further, regulation is needed to ensure that inequalities of distribution that may be inherent in market outcomes are moderated, and brought in line with society's political preferences. Stock Exchanges play a catalytic role in reforming the Indian Securities Market in terms of microstructure, market practices and trading volumes. Historically, exchanges have contributed to promote good corporate governance in their listed companies through listing and disclosure standards and by monitoring compliance.

In this issue we pay homage to the great soul Dr. APJ Abdul Kalam with few articles under the caption 'Remembering Dr. Kalam'. This section starts with the reproduction of Dr. Kalam's own article written in "The Management Accountant" in February 2009. Other articles are written by eminent personalities who were in close touch with him.

This issue also presents a good number of articles on the cover story theme 'Securities Markets in India & Economic Growth' by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.