



Short Review Paper

Emerging trends in financial market for re-shaping the Indian Economy

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Abstract

One of the crucial roles played by the Indian Financial Market to the capital market reform and its relationship with the Indian Stock Market is that, it is responsible for the growth and development of Indian economy. As capital market is an important aspect of changing trends in financial market pre-globalisation capital market does not have much positive impact on various economic indicators of stock market like liquidity, volatility whereas post-globalisation reforms has led to economic growth in India. As a result of the study, it reveals that the fast growing economy of India that has taken several reforms measures and continues to expand its final sector role in the economic development so as to make market more efficient with better regulation.

Keywords: Capital market, financial market, globalisation, liquidity, volatility.

Introduction

As per the Central Statistics Organization (CSO) and International Monetary Fund (IMF) India has been developed as one of the fastest growing major economy in the world. There have been various investments in various sectors of the economy with the development in the economic scenario¹. In the accretion of capital and the production of goods and services financial sector plays an important role. To enhance the role of financial sector in the economic development and better regulation so as to make markets more efficient capital markets and banking sector is a primary constituent². From the growth and development point of view of the Indian economy Capital market reforms and its relationship with the Indian stock market are of great importance³.

Since globalization, the Government has announced a variety of capital market reforms with a vision to expand the working and size of the Indian stock market and a mission to feature the positive implementation of these reforms to the increased growth of the Indian economy. Thus the specific attention should be whether the reforms have truly led to the increased growth of the Indian economy or is the change attributed to other factors which affect the functioning of the stock market³.

Project blue has also played an important role in transforming market and for creating competitive environment. This project has played an important role by identifying the issues that should be addressed related to such areas like market strategy, organisation, operating models and risk. As they deal with the impact of new technology, demographics, social changes and mounting pressures on the world's most critical natural

resources so the project needs to support financial services businesses⁴.

Global Capital Market and their growth: In shaping the development trajectory of countries Global financial integration plays an important role. This study on evolution of capital markets is very valuable.

It is important to know that what variables predict capital flows, where capital flows, about their composition, and why and how the benefits from greater capital market integration are spread provides policy setters with a better understanding of the constraints that global capital markets place on their policy choice calculus.

Related research: According to few studies an indication is there that both stock markets and financial sector have solid influence on economic growth as provided in a detailed discussion in Chakrabarty I.².

A major part of these reforms of Indian economy was linked to the financial system and the studies in the Indian context are important and interesting as India embarked on economic policy reforms in 1991. Ramaratnam and Jayaraman⁵ have investigated the changes in the capital market with respect to industry, size region, sector vise classification of equity capital, and foreign investment inflows in the stock market.

Goel and Gupta⁴ study the impact of globalization and its reforms on stock market, through measures of stock market size, liquidity and volatility. They used ratio analysis technique and found that MCR and liquidity ratios are increasing whereas volatility is said to decrease annually.

Methodology

Objectives of the research: The result of the studies for the post reform India, were not very definite in the direction and linkage of strong point between financial development, stock market development and economic development. To capture the flow of capital, this study uses the non-food bank credit as variable, level of non-agricultural GDP as a measure of economic development, level of stock market activity captured by the stock index.

Data and methodology: From the research in 1991-2012, Data about the reforms market size, volatility and liquidity obtained from the Handbook of Statistics on the Indian Securities Market, along with a number of research journals, periodicals and websites and Handbook of Statistics on Indian Economy.

In order to get the direct views and feedback regarding the implementation of reforms, Interview and questioner method is used.

The data-set covers the period from 1994 to 2010 with all its variables in constant prices (2004–2005) that are annual in nature and in logarithmic form. Data is gathered from Handbook of Statistic, Reserve Bank of India². It describes link between financial market activities and credit market activities.

Recent Changes in Indian Capital Market: i. Promotion of Private Sector Banks: Recently, the government has announced 74% equity participation by foreigners in private sector banks in India that has upheld the merger of existing bank with the other banks. ii. Direct Foreign Investment: The Secretaries of industries, foreign affairs and finance, have allowed more direct foreign investment in core sector, especially in power sector entailing of the Foreign Investment Promotion Board. iii. Mutual Fund Promotion: Nationalized banks that have sponsored Mutual Funds have increased investments. The working of mutual funds has been controlled by SEBI and the banks have to publish their net asset value every week by providing the details in leading newspapers. iv. National Stock Exchange: National stock exchange has developed as a big competitor of Bombay Stock Exchange. The prices prevailing in the market is a standard for stock prices and the National Stock Exchange deals in shares of companies throughout India. Thus, it allows the public to know the true picture of the companies and their real strength.

Operational definition: Capital Market: Capital market is the market for lending and borrowing equity and debt instruments. This is for medium and long term reserves. Long term funds originate from industry, exchange, agriculture and government. Since capital markets are vital to the functioning of economy, capital is a critical component for generating economic output. The size of a nation's capital market is directly proportional to the size of economy.

Liquidity: Liquidity is defined in terms of how easy it is to convert assets to cash. Most of the liquid asset and what

everything else is compared to is cash. The reason for this is it can constantly be used easily and immediately in the market, liquidity has a somewhat diverse consequence, for this situation, shares of stock, can be changed over to money.

Volatility: Volatility can be defined as it is a measure for disparity of price of a financial instrument over time. An implied volatility is derived from the market price of a market traded derivative³. Historic volatility is derived from time series of past market prices.

Market capitalization: The aggregate evaluation of the company based on its current share price and total number of outstanding stocks is also known as Market cap.

Market Capitalization = Current Stock Price x Shares Outstanding.

Results

Our research concludes that, capital market reforms and its relationship with the Indian stock market is of great significance from the point of view of growth and development of the Indian economy and there has been significant improvement in the stock market after globalisation and the establishment of SEBI and its reforms.

Conclusion

The objective of this paper was to show that there has been significant increase in market capitalisation after liberalization as Liberalisation of the securities market has backed to its development and also towards the Indian Economy. post-globalisation has led to economic growth in India has proven to be long term beneficial for Indian economy whereas Pre-globalisation capital market does not give any positive impact on economic indicators of stock market.

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