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Short Review Paper

Stock markets and economic growth

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Abstract

Capital market is the centre or arrangement that provides facilities for buying and selling of long-term financial claims. It is the market where transactions are made in long- term securities such as stocks and bonds. The participants of this market includes various financial institutions, mutual funds, agents, brokers, dealers and other borrowers and lenders of long-term debt and equity capital. Capital market is not a compact unit but consists of two major parts: Primary Market and Secondary market. The initial emergence of stock markets in the world can be traced back over hundreds of years to when industrialization and innovation took hold in Europe. The rapid economic growth in the past one hundred years gave rise to the explosive development of stock markets. At the same time the enhancement of stock markets has played an important role in promoting the growth of the world economy. The modern market economy depends to a greater extent on a sound operated stock market. Stock market provides liquidity to the financial instruments which are issued in the primary market.

Keywords: Stock, market, economic, growth.

Introduction

It is a place where shares of public listed companies are traded. The primary market is where companies float share to the general public in an initial public offering (IPO) to raise capital. Capital market is the centre or arrangement that provides facilities for buying and selling of long-term financial claims. It is the market where transactions are made in long term securities such as stocks and bonds.

The participants of this market includes various financial institutions, mutual funds, agents, brokers, dealers and other borrowers and lenders of long term debt and equity capital[1]. Two major parts of stock market: Primary Market, Secondary market.

The primary market or otherwise called as new issue market is one in which long term capital is raised by corporate directly from the public. The secondary market or popularly called as the stock market refers to the market where these long-term financial instruments which are already issued in the primary market are traded[2].

Stock market provides liquidity to the financial instruments which are issued in the primary market. Players in the capital market are broadly divided in to three categories: i. Companies issuing securities, ii. Intermediaries, iii. Investors.

Capital market consists of equity market as well as debt market. But the chapter will be focusing on equity market as it is more relevant for this study.

Objective of the study: Objective of the study is to examine the growth and performance of turnover in share and stock market segment in NSE.

Methodology

The study is based on the secondary data. The data has been collected from the Sites of SEBI, NSE and RBI. The data relates to the period from 2015-16 to 2016-17 (April-May). The research is of analytical nature in which facts, figures and information. From secondary sources are used to make a critical evaluation.

Trading in Indian Stock Market

The Indian secondary capital market or the stock market mainly consists of the stock exchanges, Over the Counter Exchange of India and Stock Holding Corporation of India. Indian stock market can be quoted as one of oldest stock markets in Asia which is almost 200 years old[3].

Stock Holding Corporation of India Ltd was incorporated in 1986 as a public limited company. It has been jointly promoted and owned by the All India Banks and Financial Institutions, viz., IDBI Bank Ltd, ICICI Bank, Axis bank, IFCI Ltd, LIC, GIC, NIA, NIC, UIC, and TOICL, who are all leaders in their fields of business. SHCIL has been established as a one stop provider of all financial services. It began its operations by offering custodial and post-trading services and later added depository and other services to its business portfolio[4].

It is very evident that NSE and BSE were the only two stock exchanges which reported significant trading volumes during the last 3 financial years. Other than Calcutta and Uttar Pradesh Stock exchanges all other exchanges did not have any trading volumes during 2015-16 and 2016-17 (April-June). National Stock exchange (NSE) consolidated its position as the market leader with 71.43% of the total trading volume[5]. The trading platform of a stock exchange is accessible only to trading members. The brokers would give buy/sell orders either own their own account or for their clients.

The exchange can admit a broker as its member only on the basis of terms specified by Securities Contract (Regulation) Act, 1956, the SEBI Act 1992, and other rules and regulations of concerned exchange also. Certificate of registration from SEBI is compulsory for trading in securities[6].

Listing is the formal admission process of a security in to the trading platform of a stock exchange. Listing of securities India is governed by the provisions in the following acts: i. Companies Act, 1956, ii. Securities Contracts (Regulation) Act, 1956, iii. Securities Contracts (Regulation) Rules, 1957, iv. Circulars/guidelines issued by Central Government and SEBI, v. Rules and Regulations of concerned stock exchanges.

The stock exchanges levy listing fees on the companies, whose securities are listed with them. Fee structure has two basic components: Initial Fee and Annual Fee[7].

Stock Market Major Financial Indexes

The success of an investor in the stock market always depend on how well he is able to incorporate all these factors while taking up his investment decisions. Stock market indicators are extremely used by investors across the world while taking various buy or sell decisions in the market. Any indicator which is used to project future financial and economic trends can be called as market indicators. Popular stock market indicators used by Indian Investors following are:

Market Capitalisation: It refers to the total value of all outstanding shares which is found out by multiplying the number of shares by the current market price. The market capitalization to GDP ratio is another parameter for evaluation of stock markets. Liquidity of the market can be measured by comparing the traded value to GDP ratio i.e. value of the shares traded to GDP at current market prices[8].

Price to earnings ratio (P/E ratio): It refers to a valuation of a firm's current share price compared to its earnings per share (EPS). Usually EPS is calculated by using the previous four quarters. A high P/E indicates significant projected earnings in future[9].

Return on Equity (ROE): Investment in company's equity being compared with the return on equity. It is a measure of company's profitability compared with other firms in the same industry. Dividend Yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price. It is calculated by dividing annual dividend per share by price per share.

Price to book value: It refers to the process of comparing a stocks market value to its book value. A low price to book value would be either because the stock is undervalued or it could mean that the company is not in the best of health.

Volatility in Stock Markets

Volatility is basically the variation from the average value over a measurement period. If a price of a security varies a great deal from day to day, the volatility of it will be high, and conversely if the day to day variation is low, the value of volatility will be low as well. It is measured by the standard deviation of logarithmic returns during a certain period.

In the financial year 2016-17 stock markets across the globe witnessed extreme volatility. In India Sensex soared to 43.6 percent in 2016-17 from 30.6 percent in 2016-17. Similar trend was observed for other indices also.

Over the years it has been observed that the correlation between Indian Stock Market and other world markets are on an increasing trend. This phenomenon should explain the reason for increased volatility exhibited by Indian markets during 2016-17 periods. When world markets move the valuation of Indian stocks are also affected.

Review of Recent Policy developments and Programmes

SEBI along with other regulators and government have initiated number of policies and programmes during the financial year 2016-17 in order to improve the efficiency of operations in capital market. Basically these measures are aimed at protecting the interests of the investors. Major policy developments pertaining to capital market are enumerated below[10]: i. Shareholding in stock exchanges, ii. Securities Lending and Borrowing (SLB), iii. Guidelines in respect of exit option to Regional Stock Exchanges, iv. Introduction of Direct Market Access (DMA), v. Margining of Institutional Trades in the Cash Market, vi. Mandatory Permanent Account Number (PAN) Requirement, vii. Advertisement by Mutual Funds. viii. Application supported by blocked amount (ASBA) facility in public issues and right issues, ix. Quarterly Reporting by Foreign Venture Capital Investors (FVCI): Indian markets had recorded severe volatility at the close of 2007-08. However towards the beginning of 2008-09 the market started recovering and registered gains during April –May 2008. One of the major reason for such speedy recovery was due to the timely regulations and policies introduced by various market regulators.

National Stock Exchange of India (NSE)

NSE started trading in the Capital Market segment or equities segment on November 3, 1994 and within a short span of one year NSE became the largest exchange in India in terms of volumes transacted.

Trading in derivatives was started by the exchange with the launch of index futures on June 12, 2000. The Exchange introduced trading in Index Options on June 4, 2001. NSE also became the first exchange to launch trading in options on individual securities from July 2, 2001. Futures on individual securities were introduced on November 9, 2001. Futures and Options on individual securities are available on 190 securities stipulated by SEBI.

The NSE is one of the few exchanges in the world trading all types of securities on a single platform. Its operations are divided into three segments: i. Wholesale Debt Market (WDM), ii. Capital Market (CM), iii. Futures and Options (F&O) Market.

The Wholesale Debt Market (WDM) segment of NSE deals in fixed income securities. It commenced its operations on June 30th 1994. WDM provides trading facilities for various debt instruments like Government Securities, Treasury Bills and Bonds issued by Public Sector Undertakings/ Corporates/ Banks, like Floating Rate Bonds, Zero Coupon Bonds, Commercial Papers, Certificate of Deposits, Corporate Debentures, State Government loans, SLR and Non-SLR Bonds issued by Financial Institutions, Units of Mutual Funds and Securitized debt by banks, financial institutions, corporate bodies, trusts and others.

NSE Indices: A stock market index is a number that measures the relative value of a group of stocks. As the stocks in this group change value, the index also. Table-1 shows the some of the major indices of NSE India Ltd.

International Equity Market Integration

The Indian stock market is one of the earliest in Asia, being in operation since 1875, but it remained largely outside the global integration process until the late 1980s. Globalization, economic assimilation and liberalization in the country have promoted the growth of international financial integration in the country.

Major factors contributing to financial integration and equity market integration in India are: i. Growth of multinational corporations and organisations, ii. Advancement in the field of Information Technology, iii. Greater deregulations in the Indian financial system, iv. Growth in International Capital flows, v. More liberal foreign exchange policy of the country.

Perfectly integrated markets operate as one entity, with investors facing a common set of risks. Pricing in such markets also would be in the similar way. Evidence suggests that developed countries have gained most from capital market integration to date, and any further integration will mainly benefit emerging markets. So the scope equity market integration in India in the next few years is tremendous. Integration with other International capital markets has advantages and disadvantages. Potential benefits from integration include: i. Better allocation of Capital, ii. Adoption of efficient risk management strategies, iii. Portfolio diversification, iv. Presence of a better competitive environment, v. Lower cost of Capital.

Table-1: Major indices of NSE India Ltd[11].

Indices	Particulars	Base date of the Index
S & P CNX Nifty (Nifty 50)	Blue chip index of NSE which is most popular and widely used stock market indicator of the country. It consists of diversified 50 stocks index accounting for 22 sectors of the economy. Nifty 50 accounts for more than 60 percent of total market capitalisation of capital market segment of NSE as On March 2009.	03/11/1995
CNX Nifty Junior	This index consists of the next most liquid Securities after Nifty 50. This index accounts for more than 9.5 percent of market capitalisation of capital market segment of NSE as on March 2009.	03/11/1996
CNX 100	This consists of diversified 100 stocks representing 35 sectors of the economy. Index is a combination of the Nifty 50 and CNX Nifty Junior.	01/01/2003
S & P CNX 500	This is India's first broad based benchmark of the Indian capital market and helps in comparing portfolio returns and market returns. It represents about 95.11 percent of total market capitalization and about 90 percent of the total turnover on the NSE as on March 31st, 2009.	1994
Nifty Midcap	The primary objective is to trace the movement of the midcap segment which a market segment with high growth potential.	01/01/2004
CNX Midcap	The primary objective is to trace the movement of the midcap segment which a market segment with high growth potential.	01/01/2003
S & P CNX Defty	S & P CNX Defty is Nifty 50 measured in dollars which is used as an instrument for measuring returns of institutional investor and off-shore fund enterprise with an equity exposure in India.	03/11/1995

Over the past ten years Indian Stock Market has witnessed many changes which are in line with the economic development of the country. Trading and settlement procedures have been improved and many new instruments have been introduced with an objective of meeting the varied preferences and risk appetite of Indian investors. Disclosure levels have been enhanced and market transparency has improved. Measures to protect investors' interest have also attained greater importance during the last few years.

Lots of investor education programs are also been initiated by market regulators with a view to encourage more and more capital market activities in the country. A code of corporate governance has been put in place and steps were taken to change the organizational structure of the stock exchanges.

Considering all these factors along with the current economic development of the country, growth of Indian Stock would be tremendous in the coming years. However the market has to become further transparent and reliable with lesser volatility to attract more and more foreign capital inflows in to the Country.

Conclusion

While an attempt has been made to present market design for the entire Indian securities market, the trading mechanism and such other exchange specific elements have been explained based on the model adopted by NSE. The market developments have been explained, mostly for the two largest stock exchanges namely National Stock Exchange and Bombay Stock Exchange. Wherever data permitted, an all India data has been presented.

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