

STOCK MARKET PERFORMANCE, CAPITAL FORMATION, AND ECONOMIC GROWTH: EVIDENCE FROM INDIA

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ABSTRACT: The stock market, according to experts, politicians, and academics, has been a major factor in the economic progress of developed and developing countries alike during the past few decades due to its effective allocation of capital. In the field of economics, there has been a long-running debate about whether rising stock prices cause or contribute to increased economic activity. The correlation between a thriving economy and rising stock prices is the root cause of this phenomenon. Considering its age, size, and development, the Indian capital market appears to go unnoticed, with only 0.1 units of research conducted per institution annually. This article takes a look at how India's capital market has impacted the country's economic growth.

Index Terms: Indian Capital Market, Economic Growth, capital market reforms, etc.

1. INTRODUCTION

Businesses that have savings on hand can offer both short- and long-term financing. Many other types of businesses, including government agencies, banks, investment firms, company reserves, and independent individuals, contribute financially to this group. More and more households are putting their money into assets with low yields, fixed returns, and no risk. One must have an in-depth knowledge of money and the different kinds of investments available if they want to protect their financial assets from possibly risky investments. When looking at the company's total growth, the stock market is a major factor.

When it comes to India's economic growth, the capital market is paramount. This is because it facilitates the investment of savings into businesses with the expectation of future financial gain. Significant changes have occurred in the industry throughout the years as a result of new technology, revised rules, and increased involvement from customers worldwide. With the primary and secondary markets separated, investors can more easily trade securities and companies may find a way to raise capital. Improved market efficiency, transparency, and accessibility are all outcomes of a strengthened financial system, which in turn emerged from the change.

An important factor in India's economic progress is the maturation of the capital market. They help with building things, growing businesses, and inspiring people to start their own businesses because of all the money that comes in. In a healthy capital market, new ideas can flourish, resources can be used more effectively, and the cost of capital goes down. A faster pace of economic growth and higher productivity are outcomes of each of these factors. This article examines the performance, trends, and rules of the Indian capital market to show that expanding financial markets is important for the Indian economy's overall goals of sustainable and fair growth.

2. INDIAN CAPITAL MARKET

Capital markets have been around for a long time. The first company to open its doors to the general public in order to sell shares was the British East India Company. There have been other problems for the country since then. Progress has been made over the years in the distribution system, asset classification, and economic functioning.

The market participants and consumers alike were satisfied by the systematic implementation of the reforms. In order to stop market players from wrongfully making money off of information, officials in the area of international securities use surveillance tools including bans against certain activities.

India is a major player in the global economy, and its stock and financial markets are crucial to that economy. The stock market is essential to the banking industry's ability to operate. The stock market plays an important role in preserving the stability of capitalism in America. Keeping an eye on the Indian stock market's ups and downs is their main duty. Reserve Bank of India and Securities and Exchange Board of India are their namesakes.

The protection of customer interests is their top priority, and they will also make little adjustments to the country's financial markets. Trade terminals can now connect to platforms that enable stock market trading from any location in the world, thanks to the rising utilization of computers.

The allocation of resources is heavily influenced by the capital sector. It is feasible to avoid or lessen the impact of supply issues that could threaten economic stability in the event that financial and capital markets are robust and steady. Institutions that aren't banks or hedge funds can nonetheless use the stock market to lend money, whether it's for a short or long term. The official financial market in India was underdeveloped when the country gained its freedom.

Capital Market Categorization

The bond market and the stock market are two separate subsets of the capital market. The asset types offered for sale are what differentiate these two industries.

A minor market called the bond market is a part of the bigger capital market. On this bond market, there are people that buy and sell financial assets. Many people call it the fixed income market or the credit market. You can buy and sell bonds, which are an umbrella term for a variety of assets.

Market participants can buy and sell shares of corporations on the stock market, also called the equity market by the general public. Predetermined prices are used to buy and sell stocks and options in this market. As one of Asia's four main stock exchanges, the Bombay Stock Exchange (BSE) is among the world's longest continuously running stock markets. Both the primary and secondary markets contribute to what is known as the Indian stock market.

The secondary market is a part of the capital market where investors and dealers purchase and sell bonds and equities that have already been issued. The stock market or OTC transactions can both be used to achieve this. To obtain capital, companies can use the stock exchange's main marketplace to sell freshly issued stocks or bonds. The term "initial public offering" (IPO) describes the way in which a company opens up its financial assets, including shares, to the general public.

Functions of Capital Market

Although capital markets are often associated with permanent or long-term investments, they play an essential role in the transfer of resources. Because of this, it's arguable that the financial markets contribute to the expansion of a country's economy. The importance of markets and the roles they play are explained in the section that follows:

The incentive to start saving money is supplied. There are a number of tools and services available to investors in countries other than the US through the financial sector, capital markets, and tax laws that can help them save more money. They may have put their money into activities that didn't pay off or into worthless metal or land if there hadn't been capital markets.

The growth and improvement of the economy are supported by capital markets. This exemplifies the team's overall success. With the help of the capital market, people who are short on funds and those who have extra cash can easily acquire and distribute it. Due to this, we may deduce that it promotes the growth of public and private enterprises and sectors, which helps the economy as a whole.

Investments are made with the available cash.

No matter the hour, trading takes place in the stock markets. You may find several websites that serve as marketplaces, connecting buyers and sellers and allowing them to trade things and money. Trading this instrument on stock exchanges like the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) makes it easier to close deals in the capital market.

One example of a fixed price for an item over time is a stock price, and another is the ability to buy money through the capital markets. A combination of less speculation and lower interest rates for borrowers has led to more stable asset prices. Considering India's rising profile, its historical mistakes, and the changes in its governance throughout the years, it evaluates the country fairly. In this article, we'll look at how the Securities and Exchange Board of India (SEBI) keeps investors' faith in the Indian stock market strong and how it regulates the industry as a whole. India has achieved the necessary level of global awareness, but studies show it could do even better. It is imperative that India's stock markets further align with their global counterparts. This can only be achieved by utilizing cutting-edge technology that is in sync with current best practices and encourages healthy competition. There is a chance that India's capital markets' GDP might increase by a factor of ten if the government can quickly execute reforms to the financial sector that are second generation.

3. INDIAN ECONOMY

India has stabilized its economy despite severe security measures, sharp drops in GDP, and supply chain issues. A large chunk of the business is back to where it was functioning a year ago at this time. The Indian economy appears to be showing signs of improvement according to indicators including demand, spending, and output. During the previous two quarters, a few of companies have seen steady growth. The ripple effects of the epidemic have not yet subsided; they are still felt in sectors such as retail, real estate, transportation, and tourism, among others. An analysis of data pertaining to personal loans, including credit card debt, car

loans, mortgages, and others, shows that people are being more and more cautious about taking out loans.

Following the COVID-19 pandemic, the world economy may be affected by a multitude of variables. These include more environmental restrictions, a slowdown in globalization, and significant technological and digital developments. There needs to be regulation in the electricity industry to make prices clear, reduce disputes, and guarantee that everyone can use the power system right away.

The government has allotted 3.05 trillion rupees to the power industry. India can move forward more quickly if it investigates commercial coal mines and creates new rules for public-private partnerships with clear due dates. This will be useful in securing infrastructure investment from both local and foreign sources. Selling government-owned assets, allowing more foreign investors to buy government bonds, raising the limit on FDI in insurance to 74%, privatizing publicly-owned banks, and cutting operational expenses are all potential strategies to recruit more private investment, especially from outside the country. Some things that could speed up the recovery process include using IT to help with and digitize government administrative work, implementing labor reforms at the state level, and using indirect fiscal stimulus measures. The local industry stands to gain a lot from stimulus programs that fund the building of various projects, such as seven Mega Textile Parks and seven Bulk Drugs and Medical Devices Parks, among others.

The government might use a project-based approach and devise a strategy to deal with supply and demand challenges simultaneously. The economy might benefit from this strategy and plan if it were to achieve double-digit growth in 2021 and 2022.

4. INDIAN CAPITAL MARKET AND ITS INFLUENCE ON ECONOMIC GROWTH

The financial industry is home to numerous businesses that can raise money by issuing a variety of securities. Two separate sources are necessary for the funding of each and every group. There are two classes of capital needs: working capital, which refers to funds needed immediately, and stable capital, which refers to funds needed further down the road. Various products, such as invoices and promissory notes, which are traded on the money market, are used to obtain or release working capital.

Another option for the government to use for short-term funding is treasury notes. Quickly repayable loans are within the realm of possibility for businesses. To obtain fixed or long-term equity funding, companies can go to the capital market and sell securities like bonds and debentures. To obtain fixed or long-term equity funding, companies can go to the capital market and sell securities like bonds and debentures.

The year 2022 marks the 75th anniversary of our nation's independence. At this watershed moment in our country's history, in 2022, our prime minister unveiled a vision for New India. In an effort to bring the world closer together, the New India Movement is aiming to employ modern technology and effective administration to rid India of pollution, casteism, communalism, poverty, inequality, and terrorism. Both the Indian economy and society stand to benefit greatly from this endeavor. A morally guided form of nationalism will greatly

enhance economic development. The move toward a more organized economic system is indicative of this. The 54.2 million record spike in 2018 was due to a 71% increase in income tax returns filed compared to the previous year.

Capital Market Importance: With relation to Economy

- The chance to invest in assets that are expected to grow in value and produce bigger returns is now opened up to the public.
- Businesses may only raise funds for the long run through the stock market.
- People can have a better understanding of the economy as a whole and the patterns influencing different assets by taking part in capital market trading.
- Foreign investment can potentially increase in a country with a thriving capital market.
- For the sake of this debate, "foreign investments" will refer to the inflow of funds from outside the country at issue.
- Because of the capital market, prosperous businesses will have access to goods and services that were previously unavailable, as well as the opportunity to expand into new markets.
- When the capital market grows, more money is available to invest, which boosts the economy.
- The capital market is a great place for many types of companies to make money. This includes investment trusts, commercial banks, mutual funds, and more. In order to make educated decisions regarding the investments in their portfolio, they collaborate with financial specialists who are masters at forecasting market trends.
- Policymakers can use the capital market as an economic indicator to gauge the overall health of the economy and pinpoint problem areas.

As part of its ongoing liberalization process, India has recently enacted a slew of policies meant to boost the country's GDP. However, the ones used on the country's stock exchanges have become much more famous than any of them. Subhash Aggarwal is the head honcho and chairman of SMC Global, an investment solutions firm based in India. Global capital markets, according to Aggarwal, have best practices, rules, and institutions that are similar to India's.

Foreign corporations and financial services providers have found new investment opportunities in India's booming retail sector. In most cases during the past decade, India's stock markets have beaten global benchmarks, and the country's capital markets have expanded substantially. A long time has passed since a major event occurred.

Some of the important influences of the capital market on the economy include:

Proper channelization of Capital Formation – More and more sophisticated financial tools have made it possible to invest in companies with the expectation of a return on that investment at a later date. The rapid response of the stock market to fluctuations allows for the accurate portrayal of the prices of financial instruments. Businesses and consumers alike will reap the benefits of this since it streamlines the process of bringing money into or staying in the system.

Mobilization of Savings – In a state of robust financial markets, it is simple to pool savings from many industries. Investors can take advantage of capital market instruments,

which are known for their liquidity and high return potential. If the capital market were to fail, money may be wasted on pointless spending and useless instruments.

Raising Capital – By tapping into the capital markets, businesses are able to secure funds for the long run. Since not all investors will have the patience to sit on their money for years, shares will be up for grabs. The corporation will be able to maintain a consistent capital balance because of this. The stock market is able to attract capital from domestic and international investors using a variety of financial products, including shares, bonds, and others. A nation's economic development can be accelerated by the influx of ideas and financial resources from people living outside its borders.

Liquid and Continuous Market– Stock exchanges are the venues where trading in securities takes place. Due to their greater liquidity, marketable securities can be converted into cash at a faster rate than other assets.

Provision of diversified services – Financial institutions are able to provide a vast array of services due to capital markets. These include specialized advise, loans to entrepreneurs, solutions for underwriting, advice on accessing equity markets, assistance with technology integration, and increasing corporate visibility. In addition, they provide assistance in locating potential industrial expansion sites, provide training for business owners, and back the development of case studies.

Revival of sick units and Backwards Areas– Companies experiencing financial difficulties can rely on the backing of the capital markets to help them get back up and running quickly. Underprivileged or rural locations can access long-term funding through capital markets. Consequently, the economy of underprivileged and rural areas might flourish.

Encouragement for investment and stability of prices – Capital markets provide investors with a vast array of financial tools that they can use to allocate their assets to other entities, such as firms, political bodies, and other institutions. A decrease in loan interest rates allows the organization more leeway in its distribution and growth strategies. As a result of better market organization and management, financial assets are now more stable and less prone to volatility. Several methods are employed to guarantee the stability of the instruments, including halting hazardous operations, channeling resources towards profitable businesses, and providing low-interest loans.

Promotion of reliable industrial growth– In order to attract investors to promising regions and enhance operational effectiveness, the capital market evaluates a company's financial situation. The money from the sale will go toward buying some of the company's stock. If this strategy works, the industry might grow, which would be great for the neighborhood and the economy as a whole.

Payback to the investors– By providing an explanation for the variations in financial instruments, capital markets allow investors to track their portfolios and, if necessary, change their holdings to achieve more favorable outcomes. The ability to sell the assets is also guaranteed by them. To protect investors' interests in the event of a bankruptcies or corporate collapse, a Stock Exchange Compensation Fund was established. Since the economy is strong and stable, this is within reach.

Allocation of Risk– The capital market investor's return on investment (ROI) is proportional to his or her risk tolerance. Investors run the risk of substantial loss or gain when they put their money into high-risk investments. The conventional wisdom holds that novel dangers and high-risk tools are two separate things.

5. CONCLUSION

The progress of a contemporary economy is predicated on a strong financial sector that pools local resources and entices international investment for profitable endeavors. Higher trading volumes or the difficulty in finding a fair price in the bond market typically lead to the termination of the agreement, despite the inherent inefficiency of financial markets. If people are afraid to establish new businesses because they think the financial markets won't work, the economy can end up being less competitive. The ideal ownership arrangement can be more easily chosen when the stock market is robust since it decreases the price of owning real estate. This book explains how the efficiency and pace of economic development can be measured by looking at how the capital market is doing. The Indian financial markets have grown in tandem with the country's economy, which is one of the world's most dynamic.

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