



# Role of Capital Market in the Economic Development of India

**Dr. Abhishek Kumar Mishra**

**Assistant Professor**

**Pt. Ravishankar shukla University Raipur**

## ABSTRACT

India's capital market has advanced significantly in terms of creating complex instruments and cutting-edge market procedures. A comprehensive selection of goods, an integrated platform for trading in both cash and derivatives, and a fully automated trading system across all stock exchanges are the main advantages of the Indian capital market. Together with the financial institutions that support the nation's economic growth, the capital market is an essential component of the Indian economy. Similar to economic development, stock market development is a complicated and multidimensional idea, and no one metric can fully represent all perspectives on stock market expansion. Economies, obstacles to the expansion of the capital market, India's economic development, and policy recommendations for fostering the expansion of the capital market in emerging nations. As a result, it calls for the examination of several stock market growth indicators, including market size, liquidity, and institutional and regulatory expansion. Given the aforementioned, it can be concluded that an investor is never fully committed to taking advantage of the economic possibilities that mobilize and save in order to increase their wealth. This research assesses the capital market and emerging

**Keywords:** capital market, economic growth, economic development

## INTRODUCTION

As technology advanced, trading on the capital market became much simpler and quicker than it had been before. Only a small number of participants were able to trade in the capital market in its early phases. Additionally, as the market's significance to the country grew, so did the number of players. To begin with, however, open outcry was the primary method of trading on Indian stock exchanges prior to the advent of technology. Orders and trade data did not immediately match. The trade was ineffective and time-consuming. Trading volumes were restricted by the physical trading method. Economic growth is hampered by the need for long-term investment to support development and growth, which is much longer than most savers are ready to commit their money for. The capital market is known as the long-term end of the financial system because it offers a channel for the mobilization and use of long-term money for development. India's financial markets include the foreign exchange market, capital market, insurance market, money market, and government securities market. The derivatives market has also just surfaced. Since banks are now permitted to do insurance services, the bane assurance sector has also grown significantly. The majority of financial markets were characterized by poor liquidity, high transaction costs, barriers to entrance, limits on flows of transactions, and controls over the price of financial assets until the early 1990s. These traits impeded the markets' growth and the effective distribution of resources that were directed via them. Financial market reforms since 1991 have placed a strong emphasis on improving systemic liquidity, lowering transaction costs, and loosening limitations on transactions through the price discovery process.

## 2. REVIEW OF LITERATURE

**Anand Pandey 2003** In his Thesis "Efficiency of Indian Stock Market," examined three well-known stock indexes to determine the degree of efficiency and random walk characteristics of the Indian equities market. The study provided evidence

ence that the Indian market is inefficient. The results of autocorrelation analysis and tests showed that the Indian stock index series are biased random time series. 2003 thesis, "Efficiency of Indian Stock Market," Anand Pandey examined three well-known stock indexes to determine the degree of efficiency and random walk characteristics of the Indian equities market. The study provided evidence that the Indian market is inefficient. The results of autocorrelation analysis and tests showed that the Indian stock index series are biased random time series.

## Self-Review (2008) Indian Market and Other

The research paper "Indian Capital Market Review: Issues, Dimensions and Performance Analysis" by **Ansari Mohd S Hamim (2012)** is another outstanding contribution in this field. The researcher has determined that the goal of an efficient capital market is to mobilize funds from those who possess them and direct them to those who can use them most effectively. According to the researcher's analysis, the Indian financial industry is multifaceted yet unbalanced. Furthermore, it has been said that the Indian capital market has experienced significant innovation in terms of legislation and manner of operation in the last year.

**Kumar Bharath & Sampath Sangu (2012)** A conceptual framework of the relationship between corporate governance and two significant determinants of capital market development: a firm's financial performance and its access to financing has been outlined in their research paper, "Corporate Governance and Capital Markets: A Theoretical Framework." The framework makes the assumption that a collection of connected governance elements and other business attributes simultaneously define a company's corporate governance. This study aims to understand how companies are fair in the capital market and corporate governance. It was clarified that the quality of corporate governance at the business level may improve the firm's financial performance and its capacity to get financing, both of which ultimately contribute to the growth of the capital market.

### CHALLENGES OF INDIA CAPITAL MARKET

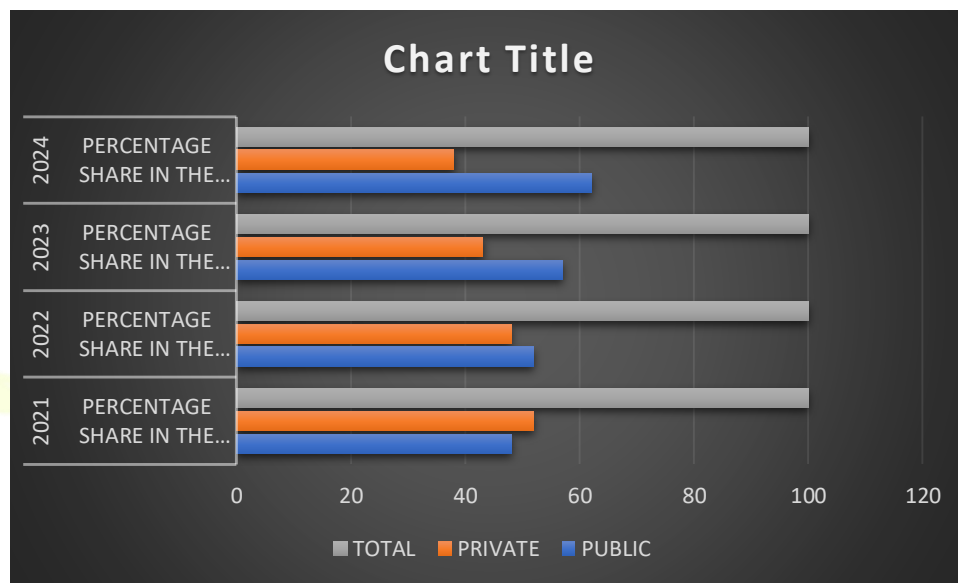
- Insider Trading,
- Market Manipulation,
- Systemic Risk,
- Regulatory Issues,
- Financial Crises.

### 3. IMPORTANCE OF THE STUDY

As a result of globalization and liberalization, the Indian capital market has undergone significant structural changes. Scholars, researchers, and practitioners were drawn to the financial sector changes in order to get a deeper understanding of the workings of capital markets and its consequences. The regulatory authority's actions mostly focused on goals including raising the Indian capital market to international norms, increasing transparency, preventing unfair trade practices, and promoting market efficiency. As a result of these reforms, the secondary markets now operate with a number of modifications, including automated internet trading, a shorter settlement time, increased prospects for international portfolio investors, and more. Globally, which, like its other industrialized equivalents, has created derivative products to help investors manage risk. In addition to these advancements, the Indian market is regarded as one of the world's growing markets as it has launched derivative products that are comparable to those of its more established counterparts, allowing investors to control risk. Mobilization of Resources through the SME Platform In the most recent fiscal year (2014-24), SEBI approved the establishment of a distinct, specialized platform for the listing and trading of SME securities. The exchange's SME platform is designed for small and medium-sized businesses with strong growth rates. These businesses' resource mobilization was evaluated using percentage values gathered from the SEBI annual report potential, and their post-issue paid-up capital must be less than or equivalent

**SECTOR WISE RESOURCE MOBILIZATION**

SECTORS	2021	2022	2023	2024
PERCENTAGE SHARE IN THE TOTAL AMOUNT	PERCENTAGE SHARE IN THE TOTAL AMOUNT	PERCENTAGE SHARE IN THE TOTAL AMOUNT	PERCENTAGE SHARE IN THE TOTAL AMOUNT	PERCENTAGE SHARE IN THE TOTAL AMOUNT
<b>PUBLIC</b>	<b>48</b>	<b>52</b>	<b>57</b>	<b>62</b>
<b>PRIVATE</b>	<b>52</b>	<b>48</b>	<b>43</b>	<b>38</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**SECTORAL SHARES IN THE TOTAL RESOURCE ALLOCATION**

The amount raised through public sector issues was 52% percent of the total resource mobilization. This is the fourth consecutive financial year wherein the public sector issues garnered a larger share of the resource mobilization in the primary market compared to 2021 to 2024

**CAPITAL MARKET DEVELOPMENTS**

The Indian capital market has seen significant changes since 1991 as a result of the New Economic Policy's adoption. The following are a few of the crucial actions: Securities and Exchange Board of India (SEBI): Since 1992, SEBI has operated. It was established with the authority to control the operations related to securities marketing, stock exchange investments, merchant banking, portfolio management, stock brokers, and other activities in India. Protecting investors' interests in the nation's major and secondary stock markets is SEBI's goal.

- **PAN Made Mandatory**
- **National Stock Exchange (NSE)**
- **Screen Based Trading**
- **Rolling Settlement:**
- **Internet Trading**
- **Derivatives Trading**
- **Buy Back of Shares**

## ELEMENT OF THE CAPITAL MARKET

- **Market regulators:** The central government's Department of Company Affairs, Department of Economic Affairs, SEBI, and RBI (to a certain extent) are the regulators of the capital market.
- **Capital market segments:** The Indian capital market is divided into two interconnected and separate parts. The primary market and the stock (secondary) market are these segments.
- **Shares, bonds, debentures, futures, options, and mutual fund units** are all considered securities. Middlemen: Brokers, subbrokers, custodians, share transfer agents, merchant bankers, and depositories are examples of intermediaries.
- **Securities issuers** include corporations, banks, government agencies, financial organizations, and mutual funds.
- **Individuals, businesses, mutual funds, financial institutions, and overseas institutional investors** are all considered investors.

## FACTORS RESPONSIBLE FOR GROWTH AND DEVELOPMENT OF CAPITAL MARKET

- **Growth of Entrepreneurs:** Since 1980s, there has been a remarkable growth in the number of entrepreneurs. This created more demand for short term and long term funds. FIs, banks and stock markets enable the entrepreneurs to raise the required funds. This has led to the growth of capital market in India.
  - **Credit Rating Agencies:** Credit rating agencies provide guidance to investors / creditors for determining the credit risk. The Credit Rating Information Services of India Limited (CRISIL) was set up in 1988 and Investment Information and Credit Rating Agency of India Ltd. (ICRA) was set up in 1991. These agencies are likely to help the development of capital market in future.
  - **Growth of Underwriting Business:** The growing underwriting business has contributed significantly to the development of capital market.
  - **Growth of Multinationals (MNCs):** The MNCs require medium and long term funds for setting up new projects or for expansion and modernization. For this purpose, MNCs raise funds through loans from banks and FIs. Due to the presence of MNCs, the capital market gets a boost.
- Legislative Measures:** The government passed the companies Act in 1956. The Act gave powers to government to control and direct the development of the corporate enterprises in the country. The capital Issues (control) Act was passed in 1947 to regulate investment in different enterprises, prevent diversion of funds to non-essential activities and to protect the interest of investors. The Act was replaced in 1992.
- **Growth of Mutual Funds:** The mutual funds collect funds from public and other investors and channelize them into corporate investment in the primary and secondary markets. The first mutual fund to be set up in India was Unit Trust of India in 1964.
  - **Development of Venture Capital Funds:** Venture capital represents financial investment in highly risky projects with a hope of earning high returns after 1991, economic liberalization has made possible to provide medium and long term funds to those firms, which find it difficult to raise funds from primary markets and by way of loans from FIs and banks.
  - **Increasing Awareness:** During the last few years there has been increasing awareness of investment opportunities among the public. Business newspapers and financial journals (The Economic Times, The Financial Express, Business India, Money etc.) have made the people aware of new long-term investment opportunities in the security market. Growing Public Confidence

## IMPLICATIONS AND RECOMMENDATIONS OF POLICY

According to the study's policy implications and the conclusion reached, the capital market's contribution to the nation's economic development and growth can be better optimized via promotion. Only with a sizable and engaged investor base can this be possible. The majority of traders and investors still do not fully comprehend the ideas involved in trading, despite the fact that SEBI, NSE, BSE, and other organizations have been holding training programs to develop a cadre of highly qualified professionals to engage in trading and investing. They engage in speculative trading, frequently losing more money than they make. Volumes have indeed grown, but the intended volumes that translate into lucrative activity have not yet materialized because of a lack of appropriate education, awareness, and capital market understanding. Therefore, it is recommended that in order to promote capital market instruments, training and educational awareness programs be carried out in smaller cities. An informed investor will be more willing to take chances and reap the rewards of market participation. Even though the government spends a lot of money on financial market research, the complicated

ed models that are discussed in the studies are not understood by average investors. Instead, further research in the area of investor education need to be encouraged. This will also help in increasing the investor base in India which is currently minimal compared to developed countries.

## **FUTURE PROSPECTS**

In order to comprehend the investment activity of individuals in the capital market, the current study examines a rising component of the Indian capital market in relation to economic development. An effort has been made to comprehend people's misconceptions and anxieties about investing and trading. The research collected data from brokers and subbrokers that deal in segments on behalf of their customers, taking a broad picture of the capital market. Future research can tackle this problem from a broader angle by speaking with regular investors directly and finding out what they think about the various products traded on the Indian capital market. Aside from age and risk tolerance, other variables like education, income, occupation, etc., might have a significant impact on an investor's trading intention. Retail investors are driving the expansion of the financial markets, thus it is critical to comprehend their attitudes, beliefs, and actions in order to increase investment activity.

## **CONCLUSION**

Although it is undeniable that the economy depends on the banking system to finance its capital needs, the nation's heavily regulated banking sector seldom meets the capital market's ever expanding funding requirements. Therefore, it is urgently necessary to revitalize the current undeveloped bond market, which is slow due to policy restraints. Since its inception in an organized manner, the Indian industry has made significant and ongoing contributions to the expansion of its economy by positioning itself as a key driver of wealth and economic wellbeing. In addition to creating the best employability prospects for its resources (natural, human, technological, financial, etc.), the industry gives its incumbents the resources they need. There has been a metamorphic shift in the structure and nature of business from domestic to international. Additionally, it has resulted in a synergistic expansion that has made a substantial contribution to its GDP. A deep and creative bond market would be the only way to close the gap between supply and demand since growing economies like India have huge infrastructure needs. In order for the bond market to support the expansion of the stock market and become competitive in the global bond markets of other developed countries, bottlenecks must be eliminated.

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