Evaluation of Indian Capital Market and its Influence on Economic Growth

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***Abstract* - The stock market's role as an effective medium of financial intermediation has been well recognized by scholars, academicians, and policymakers as a primary determinant of a country's economic development, both established and emerging, over the last several decades. The relationship between stock market growth and economic activity has long been a source of controversy in economics, and it poses the scientific issue of whether stock market development affects or is a result of increased economic activity. In light of the Indian capital market's scale, era, and growth, the overall amount of research on it appears to be woefully low - around 0.1 unit of study per institution per year. The effect of capital market performance on India's economic growth is examined in this article.**

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

I.INTRODUCTION

The capital sector is where corporations borrow and lend short- and long-term money. It mostly deals with capital raised by personal investments, banks, investment companies, government departments, and corporate savings. The amount of money invested by households in risk-free, low-yielding, and fixed-return financial products has steadily increased. Investors should have enough financial literacy and understanding of the different investment options available to them so that they do not risk money by investing in poor instruments. The stock market has a major impact on the country's economic growth.

II. INDIAN CAPITAL MARKET

Capital markets, most generally known as capital markets, have existed for decades. The British East India Company was the first company to sell stock to the general public. Since then, economies have undergone significant transformations. The way the economy functions, the asset groups, the distribution structure, and everything else has changed over time. The reforms have been phased in over time to fit the needs of consumers and market participants. In addition, securities regulatory authorities across the globe provide monitoring methods for mitigating certain actions in order to discourage market players from taking unfair advantage of knowledge in order to achieve monetary benefits.

Since India has a fair share of the global economy, the financial markets and stock markets account for a significant portion of the global economy. The stock market is critical to the functioning of the financial economy. The country's capitalism is supported by the stock market. To safeguard investors and strengthen the microstructure of India's financial markets, the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India are the two regulatory authorities for the Indian securities industry. The trading platforms of stock markets are now accessible from anywhere in the world through their trading terminals, thanks to the expanded use of information technology.

The capital sector plays a significant part in resource distribution. Furthermore, well-developed and well-functioning money and capital markets are capable of coping with and preventing (localized) supply disruptions that can destabilize the economy. Financial corporations and non-banking financial firms can still access funding on a short and long-term basis via the stock sector. "In reality, India's structured stock market showed backwardness prior to independence.'' Through the passing of time, India's stock market has matured as the government has implemented various policies to strengthen the capital market.

Capital Market Categorization

Based on the types of securities, the capital market is divided into two parts: The stock Market/Share Market and the Bond Market:

Bond Market: Bond Market is also known as the credit market, or fixed income market is a part of the capital market where the debt securities are bought and sold by the investors. The securities are traded in the form of bonds.

Stock Market: A share market or the equity market is a public entity where company stocks are traded. It is the market where shares and derivatives are traded at an agreed price. For instance, BSE or Bombay Stock Exchange is one of the oldest stock exchanges and enjoys the status of being the fourth largest stock exchange in Asia.

The Indian share market is also classified as the primary market and the secondary market.

Secondary Market: It is the part of the capital market where the already launched or the existing shares and bonds of companies are traded among investors and traders either on a securities exchange, or over-the-counter.

Primary Market: It is the part of the stock market where new stocks or bonds are issued by the company to raise the capital from the market. The company launches the stocks and bonds through an IPO (Initial Public Offering).

Functions of Capital Market

Although Capital Markets is generally thought of as a platform for long-term or infinite-term financial assets, it really plays a critical role in mobilizing resources and allocating them to efficient outlets. As a result, Capital Markets may be seen to facilitate a country's economic development mechanism. The important functions and significance of the markets have been discussed below: –

- Promotes Saving Habits: After the development of Capital Markets, the taxation system, and the banking institutions provide facilities and provisions to the investors to save more. In the absence of Capital Markets, they might have invested in unproductive assets like land or gold or might have indulged in unnecessary spending.
- Economic Growth: The Capital Markets help to accelerate the process of economic growth. It reflects the general condition of the economy. Capital Market helps in the proper allocation of resources from the people who have surplus capital to the people who are in need of capital. So, we can say that it helps in the expansion of industry and trade of both public and private sectors leading to a balanced economic growth in the country.
- Availability of Funds: Investments are made in Capital Markets on a continuous basis. Both the buyers and sellers interact and trade their capital and assets through an online platform. Stock Exchanges like NSE and BSE provide the platform for this and thus the transactions in the capital market become easy.
- Stable and Systematic Security prices: Apart from the mobilization of funds, the Capital Markets helps to stabilize the prices of stocks. Reduction in the speculative activities and providing capital to borrowers at a lower interest rate help in the stabilization of the security prices.

It alludes to India's governance system maturing, as well as its past mistakes and current power. The role of SEBI as the Indian capital market's ultimate regulator, as well as the numerous measures taken by SEBI to preserve investor trust in the market, are highlighted in the paper. According to the report, while India has reached the required acceptability on the global map, progress must continue. Newer innovations must be launched to ensure that competition persists, while industry best practices are maintained to carry Indian capital markets to the next stage of globalisation. The urgent need to implement second-generation financial sector reforms would propel India's capital markets to double-digit GDP rise.

II. INDIAN ECONOMY

Despite harsh lockdowns, deep GDP contractions, and supply chain disturbances, India was able to pursue a road to economic recovery. Large swaths of the economy have returned to levels seen in the same period last year. India's economy is on the mend, according to productivity, demand, and expenditure indicators, with select segments showing steady yet persistent growth over the last two quarters. However, the pandemic continues to affect industries in sectors such as real estate, retail, and transport and tourism. A deeper examination of data on mortgages, vehicle loans, credit card debt, and other personal loans reveals conservative borrower behavior, which is steadily changing.

Digitisation, increased automation, de-globalisation, and a demand towards green policies are some of the possible factors that would shape the global economy post-Covid-19. Proposed measures to rationalize tariffs, reduce conflicts, and introduce open access, for example, are desperately needed in the power sector. The power sector has been allotted Rs 3.05 lakh crore by the government. Furthermore, considering commercial coal mines and drawing international and private capital through infrastructure via new PPP modalities with predetermined deployment timelines would help India recover faster. Other policies to raise private money, particularly international capital, include monetizing government property, growing foreign participation in G-Secs, raising the FDI ceiling to 74 percent in insurance, privatizing PSBs, and lowering the cost of doing business. Recovery would be accelerated by indirect fiscal stimulus, IT enablement and digitization through government business operations, and smoothing out labor reforms at the state level. Infrastructure support schemes for seven Bulk Drugs and Medical Devices Parks, seven Mega Textile Parks, and other infrastructure support schemes would be a major boost for domestic manufacturing.

The government can concentrate on the economy's recovery on a project mode basis, with an action plan that addresses both supply and demand side causes, so that it can reach double digits in 2021-22 and stay there.

IV. INDIAN CAPITAL MARKET AND ITS INFLUENCE ON ECONOMIC GROWTH

The financial sector is concerned with numerous organisations collecting funds via the issuance of various securities. Any company needs two forms of financing. There are two types of capital requirements: short-term or operating capital and long-term or stable capital. The money market is used to collect or deposit short-term or working capital needs by issuing various securities such as bills, promissory notes, and so on. Treasury bills are used by the government to collect short-term funds. Banks are critical in delivering short-term financing. Companies collect long-term equity or fixed capital by issuing securities, debentures, and bonds on the capital market. Companies collect long-term equity or fixed capital by issuing securities, debentures, and bonds on the capital market.

In 2022, our nation will celebrate 75 years of independence. Our Prime Minister has issued a vision statement for New India in 2022 to celebrate this historic moment in our country's history! The New India Movement envisions an India free of hunger, inequality, insurgency, communalism, casteism, and filth, and one that is united throughout the world by implementing righteous governance and cutting-edge technology. This Movement would have a significant economic effect on India, in addition to positively affecting the country's social structure. Economic development would be greatly accelerated by a country that is ethically responsible and well-governed. The discernible shift toward a more formal economy is an example of this. The overall amount of income tax returns submitted for the year 2018 increased by c.71 percent (c.54.2 million), which is a commendable accomplishment for the government.

Capital Market Importance: With relation to Economy

- It provides opportunity for the public to invest their savings in attractive securities which provide a higher return.
- It is only with the help of capital market; long-term funds are raised by the business community.
- Capital market provides an opportunity for the investing public to know the trend of different securities and the conditions prevailing in the economy.
- A well-developed capital market is capable of attracting funds even from foreign country. Thus, foreign capital flows into the country through foreign investments.

- Existing companies, because of their performance will be able to expand their industries and also go in for diversification of business due to the capital market.
- It enables the country to achieve economic growth as capital formation is promoted through the capital market.
- Capital market provides opportunities for different institutions such as commercial banks, mutual funds, investment trust; etc., to earn a good return on the investing funds. They employ financial experts who are able to predict the changes in the market and accordingly undertake suitable portfolio investments.
- Capital market is the barometer of the economy by which you are able to study the economic conditions of the country and it enables the government to take suitable action.

India's latest economic liberalization efforts have culminated in a slew of new initiatives aimed at increasing the country's overall economic performance. None, though, have seen the same level of popularity as those used in the country's financial markets. 'India's capital markets institutions, laws, and practices are on par with the best in the world,' says Subhash Aggarwal, chairman and managing director of SMC Global, an investment solutions company in India. 'Financial sector development has been crucial in fostering investment and economic growth in the region. Because of the increased capacity of the Indian retail sector, it continues to expand, creating more opportunities for foreign investors as well as India's financial services business.' India's capital markets have had a very successful modern history, with stock markets outperforming global indices for the better part of a decade. A spectacular incident, albeit one with a long past.

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

- Proper channelization of Capital Formation – With the developments of financial formations, there is a proper structure in place where the mobilized capital is distributed to organizations where the owners believe they will be able to reap fruitful returns in the future. The stock market is quick to adjust to market volatility in order to represent the true price of financial instruments, which benefits both consumers and corporations by either attracting or discouraging capital inflows.
- Mobilization of Savings – The ability to pool savings from different sectors is simple in an appropriate capital markets setting. The participant in these markets is enabled by the fair yield and liquidity of capital market instruments. Savings may be spent in unproductive, conspicuous spending, and inefficient instruments if there is no efficient capital market mechanism.
- Raising Capital –Capital markets enable businesses to collect long-term capital. Some owners will not be able to retain funds for an extended period of time, allowing shares to allow different buyers to sell and purchase stocks, allowing the firm to preserve permanent cash. In addition to domestic assets, stock markets attract funds from abroad in the form of shares, bonds, and other financial instruments. Along with international investor money, technologies from other countries can be introduced, which is beneficial to the country's economic growth.
- Liquid and Continuous Market – the capital markets are the places where the sellers and buyers of the securities are moved to one place to perform the transactions. The holdings can be easily converted into cash as these marketable securities are more liquid when compared to other instruments.
- Provision of diversified services – capital markets enable the financial institutions to perform various services such as providing expertise advice, grant of loans to entrepreneurs, promotion of organizations, underwriting facilities, guidance towards participation in the equity markets, technical assistance etc. They also assist during the preparation of feasibility reports, training to the corporate, identification of growth potentials in the sector.
- Revival of sick units and Backwards Areas – capital markets provide sick units with timely financial assistance to revive their operations. The funds raised through capital markets can be utilized for the long-term projects to be implemented in the rural and backward areas.

This helps the economic development of the rural and backward areas.

- Encouragement for investment and stability of prices – Capital markets allow savers to participate in corporations, political organizations, and other entities across a variety of financial instruments. When spending grows and interest rates fall, capital formation and distribution become more portable. Markets are efficient in their processes and design, resulting in financial instrument stability and a decline in security price volatility. The instruments' stability is achieved by the supply of funding at a low rate of interest, the diversion of funds to profitable ventures, and the elimination of speculative operations, among other things.
- Promotion of reliable industrial growth – capital market assesses the financial status of the corporate which promotes efficiency and encourages the investors to invest in productive industrial sector. The funds are mobilized towards corporate securities for investments. This process kindles the industry growth followed by the sector and economic development of the country.
- Payback to the investors – Capital markets ensure investment marketability by publicizing the flow of financial instruments, allowing investors to monitor their portfolios and adjust their investment choices to more attractive lines if necessary. The economy is sufficiently well-equipped that buyers' rights are protected by the creation of a Stock Exchange Compensating Fund in the event of a failure or theft by banks or businesses.
- Allocation of Risk – capital markets provide returns to the investors based on their risk appetite. Higher risk instruments provide high returns and at the same time higher losses to the investor. There is a perception that the new risks are inversely correlated to the high-risk instruments.

V. CONCLUSION

In a modern economy, economic growth is dependent on a well-functioning financial sector that pools domestic assets and mobilizes foreign capital for productive investment. Because of high trading rates or the difficulty in having a good price in the bond sector whether the financial markets are inefficient, the public offering largely vanishes. As a result, dysfunctional capital markets could reduce the motivation to start new businesses, lowering the economy's overall long-term competitiveness. ''A productive stock exchange, on the other hand, lowers the acquisition costs of selling possession of real properties, allowing for the advent of an ideal ownership system." The article demonstrates how capital markets are often seen as a measure of a country's economic health and development. India's financial markets now fully represent one of the world's fastest-growing economies.

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