THE DYNAMIC ROLE OF INDIAN STOCK MARKETS IN ECONOMIC DEVELOPMENT: A GLOBAL PERSPECTIVE

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Abstract

The stock market is an essential component of the financial system and a key engine of economic expansion. It's a market for buying and selling stocks, bonds, and debentures among private investors and corporations. The stock market is a platform for trading stocks, bonds, options, futures, and other financial instruments. The health of India's economy may be judged by its stock market's response. Many developing nations have lately begun attempts to construct or revitalise stock markets in order to increase capital mobilisation and allocation with the help of the International Finance Corporation and the World Bank. With the formation of the Securities and Exchange Board of India (SEBI) and additional fortification after the stock market scam in 1991, stock market reform in India gained speed. This is consistent with a pattern seen in many nations throughout the world. The Indian stock market has reached global standards thanks to the development of SEBI and technological progress. Real estate, stocks, debentures, and bonds have all seen their values grow as a result of its extraordinary achievements and surprising volatility.

Paper Identification

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Introduction

In July of 1991, a process of financial and economic deregulation got underway in India, and with it came the beginning of a new era in the country's capital market. Following the depreciation of the rupee by around 20% in July

1991, the government of India completely reworked its industrial strategy to do away with licencing requirements for all sectors with the exception of 18 scheduled industrial groupings. In addition, the elimination of the MRTP restriction on the assets of corporations, the diluting of FERA, and the liberalisation of international commerce were some of the other changes that were implemented. As a result of economic liberalisation, privatisation, and globalisation, the capital market in India has taken on an increasingly important function in terms of both financing and lending. The primary purposes that the stock market is designed to fulfil are those of funding corporate industries, encouraging entrepreneurial endeavours, mobilising resources, and enabling the distribution of resources in order to facilitate economic growth. India has had one of the slowest growth rates among emerging countries, which has been accompanied by an expanding public deficit and repeated issues with its balance of payments. Instead of demonstrating strong development, considerable public savings, and self-reliance, India has had one of the worst growth rates among developing nations. India also had one of the lowest levels of public savings in the world. The pace of economic expansion in India from 1950 to 1990 was consistently lower than 4% on an annual basis. Industrialization was a policy that safeguarded native industries from international competition; nevertheless, this approach was also responsible for high costs and slow economic progress. (Kochhar et al 2006, Virmani 2004).

After 1991, the capital market entered its development phase, which was marked by the implementation of new methods and policies. During this time period, the Securities Exchange Board of India (SEBI) was established as a completely autonomous entity with the responsibility of overseeing the operations of the Indian stock markets. Its mandate encompasses both the growth of the market as well as its regulation, and it was given independent powers in order to carry out its duties. In the year 1875, the Bombay stock exchange was formed with the intention of developing and revitalising the financial sector. At that time, international norms came up against the economic system in India. The stock market has been given a significant role in the process of providing funding for the business sector in India. It is seen as one of the most dynamic parts of the financial system and makes a significant contribution to the expansion of the economy. It is a venue for buyers and sellers of securities to meet and do business for the purpose of buying and selling shares, debentures, bonds, and other types of investments. The ability that stock markets provide businesses and governments to raise capital directly from investors is the primary draw for both entrepreneurs and governments. Stock markets also provide investors with liquidity, which is another benefit of participating in stock markets.

Genesis of New Order

The Seventh Five Year Plan, which started off in 1985, is considered to be the starting point for the liberalisation of policy. The Banking Companies Amendment Act of 1983 opened up new business opportunities for banks by allowing them to participate in non-funded operations and other financial services. These new opportunities included leasing, hire purchase, merchant banking, and other business ventures. Since that time, public sector banks have begun to establish subsidiaries to engage in commercial banking, lease finance, mutual fund management, and other financial services. Since 1992, the private sector has been permitted to participate in the provision of various financial services, such as banking, mutual funds, and so on. The Securities and Exchange Board of India (SEBI) was established in April 1988 with the purpose of supervising and controlling the capital market. An statute in April 1992 granted the SEBI the authority to do so legally. There have been a number of new organisations established, such as CRISIL for credit rating and SHCIL for clearing and share depository services.

Overview of Stock Market

“The Bombay Stock Exchange has the title of being India's oldest stock exchange. Its origins may be traced back to 1855, when five Gujarati and one Parsi stockbrokers would get together in front of the Town Hall in Mumbai to discuss the stock market”. Because of the continuously growing number of brokers, these gatherings were held in a variety of different places during the course of their history. After some time, in 1874, the gathering established its new home on Dalal Street, and the following year, in 1875, it formalised its status as “The Native Share & Stock Brokers Association.” In 1958, the Securities Contracts Regulation Act was passed in India, making the Bombay Stock Exchange (BSE) the first stock exchange to be officially recognised by the Indian government. 1980 saw the relocation of the exchange to its current location in the Phiroze Jeejeebhoy Towers on Dalal Street in the Fort district. In 1986, it created the BSE SENSEX index, which provided the BSE with a method for measuring the overall performance of the stock markets. The Stock Exchange, Mumbai; the Ahmadabad Stock Exchange; throughout the 20th century, 22 more stock exchanges followed in the footsteps of these two. The implementation of reforms has resulted in a rate of economic expansion that is practically unrivalled in the annals of the history of any nation. When assessed in terms of the quantity of money generated from the market, the number of stock exchanges and other intermediaries, the number of companies that are listed on the market, market capitalization, trading volumes and turnover on stock exchanges, investor population, and price indices, the securities market in India has expanded at an exponential rate. In tandem with this development, the characteristics of the investors, issuers, and intermediaries have undergone substantial shifts. The National Stock Exchange is largely responsible for the fundamental institutional shifts that have occurred in the market, which have led to a dramatic drop in the costs of doing transactions as well as major improvements in the market's efficiency, transparency, and safety. The Indian market is now on par with many developed markets regarding a number of different aspects. The Stock Market is the physical location where stock transactions take place. The daily price of a stock is established on the stock market via a procedure that involves both bids and offers. You make an offer to sell a stock at a certain price while also placing a bid to purchase the stock. Buyers fight against one another to win the best bid, which refers to the greatest price that has been offered to acquire a certain stock. In a similar fashion, vendors compete with one another to provide the goods at the lowest price that has been stated. A transaction is considered to have been performed when the best offer and the best bid are found to be compatible with one another. In automated exchanges, “this task is carried out entirely by computers operating at very fast speeds. Through the provision of an effective platform for the raising of capital throughout the course of the previous 137 years, BSE has been a significant contributor to the expansion of the business sector in India.” BSE is the leading exchange in the world in terms of the number of firms that are listed on its exchange, which is over 5000.

National Stock Exchange

Following the recommendations of the Pherwani committee, the government took the necessary steps for the National Market System (NMS) and recognised “The National Stock Exchange (NSE) in 1993 for the purpose of establishing a National Market System. This system makes it possible for electronic trading and settlement to take place all over the country on the basis of standard prices and a fixed margin of service charges or commission for brokers. When the SC(R) Act finally got around to recognising stock exchanges, the NSE was the 23rd one”. The function that exchanges play in the future will be quite different from the one that they play now since SEBI will be increasing the amount of regulation placed on exchanges, and exchanges' developmental roles will increase much more quickly than their regulatory roles. “The Securities and Exchange Board of India (SEBI) is in charge of supervising and controlling not just the stock exchange but also every other participant in the market, including corporations, brokers, middlemen, and investors. Along with more self-regulation and a tougher enforcement of a code of conduct on the members, the Stock Exchanges will need to emerge as Public Service Institutions in order to respond to the expanding expectations of investors in the nation”. Listed firms are also responsible for their part in this process, which involves working together and providing whatever assistance possible to make exchanges operate more effectively. It is also vital to have a “skilled and professional category of middlemen and brokers in order to increase both the quality of the service and its efficiency. Education, training, and research would be the defining characteristics of aspiring stock brokers and other types of market intermediaries in the future”.

National Market System

The Pherwani Committee suggested establishing a “nationwide market system based on either the new Stock Exchange” that was already established in Mumbai or the existing Stock Exchange in Mumbai. In order to improve the functionality of the national market system, the committee suggested the establishment of a number of support organisations that would be responsible for the provision of trade settlement and depository services of an exceptionally high standard. In this connection, it has advised that there should be three tiers, which are Stock Exchanges in Mumbai, Kolkata, etc., regional Stock Exchanges like those in key State Capitals, and additional trading floors sponsored or operated by “Principal or Regional Stock Exchanges”. In other words, there should be three levels of stock exchanges.

Securities Exchange Board of India (SEBI)

A nation's economy may be traced back to its share market as its primary driver of growth. People who are interested in investing in securities have a better possibility of doing so via its medium. It is of the utmost importance to exercise control over the stock market in order to improve the country's overall economic standing and to safeguard the legal interests of investors. The Capital Issue (Control) Act of 1947 was enacted with this consideration in mind and eventually became law. However, the Act was not successful in exerting complete control over the Share Market. The SEBI was founded in 1992 in order to address the shortcomings of the previous system.

Depository Participant

In India, a participant in a depository is referred to as the Agent (law) of the depository. This participant is known as a “DP.” They sit in the middle as the go-betweens for the depository and the investors. An agreement that was signed between the DPs and the depository under the Depositories Act governs the connection that exists between the two parties. This agreement establishes the parameters for how the DPs and the depository interact with one another. A DP is, in the strictest definition of the term, an entity that has been registered with SEBI as a DP in accordance with “the provisions of sub-section 1A of section 12 of the SEBI Act. The terms of this act provide that in order for a DP to be able to provide services connected with depository, the DP must first get a certificate of registration from SEBI. There were 288 DPs of NSDL registered with SEBI in 2012, while there were 563 DPs of CDSL registered with SEBI. The SEBI (D&P) Regulation, 1996 requires stockbrokers, R&T agents, and non-banking finance firms (NBFC) to have a minimum net worth of Rs. 50 lakh before a certificate authorising them to serve as DPs may be issued to them”. The term “depository” may refer to either an institution or a kind of organisation. Trading can take place inside these institutions. On behalf of their customers, the intermediaries carry out the necessary transactions in a wide range of securities at the depository. Depositories Participants is the phrase used to refer to these many middlemen. There are essentially two kind of depositories that may be found in India.

- **National Securities Depository Limited (NSDL)**
- **Central Depository Services Limited (CDSL)**

National Securities Depository Limited (NSDL)

"Central to the Indian securities market is National Securities Depository Limited (NSDL). It was the first of its kind in the nation when it opened in 1996. NSDL allows investors to store and trade dematerialized securities using electronic book-entry services. It plays an important role in the Indian capital market architecture by fostering openness, efficiency, and security in the trading of securities."

Key features and services provided by NSDL include:

1. Through a process known as "dematerialization," NSDL makes it easier for investors to exchange their physical assets for digital ones. This allows for the safe and easy storage of securities in electronic form, doing away with the necessity for physical share certificates.
2. Trades may be settled quickly and easily thanks to NSDL's settlement technology for securities transactions. Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) are two of the electronic payment methods it supports.
3. NSDL communicates with Depository Participants (DPs) such banks, monetary establishments, and stockbrokers. DPs mediate between NSDL and investors, helping both parties set up and manage demat accounts and provide other services.
4. You may use NSDL to obtain your demat account information, transaction statements, and holding statements, among other investor services. Investors may use this to nominate and transmit securities, as well as electronically transfer securities, freeze and unfreeze accounts, and more.
5. When it comes to corporate acts like dividends, bonus issues, rights issues, and mergers, NSDL is an integral part of the process. It verifies that investors' demat accounts have been properly credited with the benefits and entitlements associated to these events.
6. Electronic Voting (E-Voting): NSDL offers a system for shareholders to cast their votes and participate in corporate governance without leaving the comfort of their own homes.

Overall, NSDL's provision of a safe and effective system for keeping and trading securities in dematerialized form has contributed greatly to the development and expansion of the Indian capital market. Because of its contributions to the modernization and simplification of the Indian securities market, the time, cost, and risk associated with physical securities have been greatly reduced.

Central Depository Services Limited (CDSL)

"A major central securities repository in India is Central repository Services Limited (CDSL). The Securities and Exchange Board of India (SEBI) founded it in 1999. Dematerialized securities may be held, transferred, and settled more easily with the help of CDSL's electronic book-entry services".

Here are some key features and services offered by CDSL:

1. Through CDSL, investors may dematerialize their holdings of tangible assets like stocks and bonds. Because of this, demat accounts may be used to store securities instead of cumbersome share certificates.
2. Banks, other financial institutions, and stockbrokers make up CDSL's network of Depository Participants (DPs). DPs mediate between investors and CDSL by providing demat account services and facilitating trades.
3. CDSL offers investors demat account services so that they may store and trade assets digitally. The investor may check the balance of their demat account, review their transaction history, and make trades all from their computer.

4. By transferring the ownership of securities from the seller's demat account to the buyer's demat account, CDSL aids in the settlement of securities transactions and clears them for trading. It's a safe and streamlined way to settle financial transactions that cuts down on paperwork and saves time.
5. Dividends, bonus issues, rights issues, and mergers are all examples of corporate activities that CDSL manages well. It guarantees that investors will get the proper credits to their demat accounts as a result of these company activities.
6. To facilitate shareholder participation in corporate decisions and the exercise of voting rights, CDSL provides an electronic voting platform (e-voting).

The Central Depository Services Limited (CDSL) has been instrumental in the modernisation and digitalization of the Indian financial industry. It has improved the speed and openness of securities transactions while decreasing the dangers connected with physical certificates. As a result of CDSL's efforts, the Indian securities market has expanded and improved, allowing more investors to take part and do business.

Forward Market Commission (FMC)

In India, the “Forward Markets Commission” (FMC) is the primary authority in charge of regulating the commodities futures markets. As of July 2014, it was responsible for the regulation of commodities deals in India worth Rs 17 trillion. This agency that regulates the financial sector reports to the Ministry of Finance, which is located in Mumbai and oversees the agency. The Commission in India authorises trading in 22 different commodities exchanges, of which only 6 are national exchanges. “On September 28, 2015, the Securities and Exchange Board of India (SEBI) combined with the Financial Markets Commission (FMC). In accordance with the terms of the Forward Contracts (Regulation) Act, 1952, the Forward Contracts Commission was established in 1953”. It is comprised of a minimum of two and a maximum of four members, all of whom are selected by the central government. The Ministry of Consumer Affairs, Food, and Public Distribution (India) was in charge of the agency's operations due to the fact that futures trading in India has typically focused on food commodities.

Conclusion

The Indian stock market was established with the goal of improving the country's economy through increased access to capital and more effective use of existing resources. Indian growth rates were among the lowest of emerging countries, the public deficit was on the rise, and the country faced periodic balance of payment problems, all of which ran counter to expectations of strong development, considerable public savings, and self-reliance. India also has one of the world's lowest levels of government savings. The pace of economic expansion in India from 1950 to 1990 was consistently lower than 4% on an annual basis. Industrialization was a policy that safeguarded native industries from international competition; nevertheless, this approach was also responsible for high costs and slow economic progress. “The failure of the growth route, which resulted in the need for changes in 1991, has been attributed to a variety of different causes throughout the years. Which a result appears in the shape of the establishment of the independent body known as the SEBI”. This keeps a close eye on the expansion of the stock markets and may defend an investor's interests in the process. As a direct consequence of this, people's confidence in the stock markets has begun to increase, and as a direct consequence of this, the development of the NSE and the Depository Participant was founded on people's trust. However, there are still a significant number of individuals who are reluctant to put their money into the stock market. When it comes to protecting investors' rights and informing them about the significance of the stock market's role in the economy, it is the duty of the government to foster an environment of trust among investors and to provide them with accurate information. If we compare the profits of the Indian economy to those of other developed nations like the United States and Japan, we see that the Indian economy is unable to compete.

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