Research Paper
Impact Factor: 4.729
Refereed, Listed & Indexed

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

ROLE OF CAPITAL MARKET IN INDIAN ECONOMY – AN OVERVIEW

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Abstract
Capital Market plays a crucial and effective role in the economic development of a nation. It provides the financial resources needed for the long term and sustainable development of the different sectors of the economy. The region of the activities in the capital market is dependent partly on the savings and investment in the economy and partly on the performance of the industry and the economic in general. The strength of capital market shows the strength of the country's economy. Capital market makes the cash and investments available for the companies. With the availability of investment, corporations perform better and add to the economy of the country. There are certain economic factors that impact the capital market as well. These factors include inflation and interest rates. As a conclusion it can be said that the role of capital market for the betterment of a country's economy can never be ignored.

Keywords: Capital Markets, Investments, Corporate Performance and Initial Public Offering.

Introduction
The Indian economy bucked the trend in 2015 when most of the emerging market economies witnessed significant external vulnerabilities owing to positive external balance and a stable public policy. Although the rising NPAs in the banking system and strong headwinds in the global economy did have an impact on Indian economy, it was largely stable when compared to its peers. The year 2016 will be closely watched for the government's ability to push critical reforms and apex banks' monetary policy stance to support growth. Year 2016 could be the year for India with most macro factors in place and the result of the government's push to increase investments likely to get fructified.

There are several financial institutions in a country that help to manage the finance of that country. These financial institutions include banks, capital markets, and other mortgages firms. The importance of capital market cannot be neglected in the economy of a country. This paper will demonstrate the importance and role of capital market in the economy of the country. The paper will also explain that how capital markets work and, then, add in the growth of the economy of a country.

Capital Market
A capital market is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place on other markets (e.g., the money market). The capital market includes the stock market (equity securities) and the bond market (debt).

Capital markets may be classified as primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors via a mechanism known as underwriting. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a securities exchange, over-the-counter, or elsewhere.

The capital market has two interdependent and inseparable segments the new issue market (primary market) and the stock market (secondary market). The primary market provides the channel for creation and sale of new securities while the secondary market deals in securities previously issued.

Review of Literature
KhageshAgarwal and VaibhavSahu (2011), in their study "Empirical Analysis of Predictive Accuracy in the Indian Stock Market", Stock market movement is driven by numerous factors, both at national and international levels, and because of the multiplicative effect of these factors, the market movement has been majorly random and very less predictable. A number of research studies have been undertaken in the past to model the stock market movement. Research analysts are continuously charting data and conducting fundamental analyses to identify stocks so as to design multi-bagger portfolio's which can outperform the benchmark index. Any model, which can predict the stock market movement would be helpful to investors to reduce their risk exposure, increase hedging effectiveness and maximize returns.

Uma B Devi, D. Sundar, Dr. P. Alli (2011), A study on stock market analysis for stock selection – naïve investors' perspective using Data mining Technique, An insight of stock market trends has been an area of vast interest both for those who wish to make profit by trading stocks in the stock market. Generally there is an opinion about stock market like high risk and high returns. Even though we have a huge number of potential investors, only very few of them are invested in the stock market. The main reason is the inability of risk taking skill of investors. Though get low returns they want to save their money. One important reason for this problem is that, they don't have a proper guidance for making their portfolio. In this paper we focus the real world problem; we had selected three indices such as CNX Realty, BANK NIFTY and MIDCAP 50. The analysis is purely based on the data collected from past three years. The Data mining technique, Time series interpretation is applied for the Data analysis to show the ups and downs of a particular index. The correlation and Beta are the tools which gives the suggestion about the stock and its risk. The correlation tool is used to identify the relationship between the index and company individually. This Beta is used to identify the risk associated with the stock.

Goutam Dutta, Pankaj Jha, Arnab Kumar Laha and Neeraj Mohan (2007), Artificial Neural Network Models for Forecasting Stock Price Index in the Bombay Stock Exchange, In this article we discuss the modelling of the Indian stock market (price index) data using ANN. We study the efficacy of ANN in modelling the Bombay Stock Exchange (BSE) SENSEX weekly closing values. We develop two networks with three hidden layers for the purpose of this study which are denoted as ANN1 and ANN2. ANN1 takes as its inputs the weekly closing value, 52-week moving average of the weekly closing SENSEX values, 5-week moving average of the same, and the 10-week Oscillator for the past 200 weeks. ANN2 takes as its inputs the weekly closing value, 52-week moving average of the weekly closing SENSEX values, 5-week moving average of the same and the 5-week volatility for the past 200 weeks. Both the neural networks are trained using data for 250 weeks starting January 1997. To assess the performance of the networks we used them to predict the weekly closing SENSEX values for the two-year period beginning January 2002. The root mean square error (RMSE) and mean absolute error (MAE) are chosen as indicators of performance of the networks. ANN1 achieved an RMSE of 4.82 per cent and MAE of 3.93 per cent while ANN2 achieved an RMSE of 6.87 per cent and MAE of 5.52 per cent.

R H Patil (2006), Current state of Indian capital market, In the early 1990s, India figured low in the global ranking of the state of capital markets. The adoption of sophisticated IT tools in trading and settlement mechanisms has now placed India in the lead. The National Stock Exchange has played an important role in this transformation. Shorter settlement periods and dematerialisation have been other major developments. But all is not entirely positive. The introduction of individual stock futures poses a major risk; so also the large inflow of funds through participatory notes.

K.S. Ravichandran, P. Thirunavukarasu, R. Nallaswamy, R. Babu(2005), Estimation of return on investment in share market through ANN, The stock market is one of the most popular investing places because of its expected high profit. Traditionally, technical analysis approach, that predicts stock prices based on historical prices and volume, basic concepts of trends, price patterns and oscillators, is commonly used by stock investors to aid investment decisions. Advanced intelligent techniques, ranging from pure mathematical models and expert systems to fuzzy logic networks, have also been used by many financial trading systems for investing and predicting stock prices. In recent years, most of the researchers have been concentrating their research work on the future prediction of share market prices by using Neural Networks. But, in this paper we newly propose a methodology in which the neural network is applied to the investor's financial decision making to invest all type of shares irrespective of the high / low index value of the scripts, in a continuous time frame work and further it is further extended to obtain the expected return on investment through the Neural Networks and finally it is compared with the actual value. The proposed network has been tested with stock data obtained from the Indian Share Market BSE Index. Finally, the design, implementation and performance of the proposed neural network are described.

Indian Capital Market

The Indian economy currently stands at a strong footing with the interest rate rolling downwards, key macro variables like CAD and Fiscal deficit mostly under control and the government's continued push for reforms and ease of doing business. International agencies continue to remain positive on India with an expected growth for 2016 pegged at 7.50 percent. India is likely to gain momentum in the year to come as the results of earlier measures are visible. The key factors which are likely to aid growth during the year are the impact of the executive action addressing systemic issues in key sectors like mining, railways, defense, banking, roads and power. Further, the pay commission suggestion for hikes in payouts for government employees coupled with soft commodity prices are likely to result in a consumption driven growth. The continued accommodative stance and look out for emerging room for more rates easing by the Apex bank is likely to bring in positive sentiments and scope for expansion of the economy.

Nevertheless, the risk to our outlook remains primarily owing to the international market, the pace of rate hike by US Fed and China's growth slowdown, which could have a spill over deceleration effect on emerging markets.

Indian Capital Market Indication

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Market Intermediaries	2012 - 13	2013 – 14	2014 – 15	2015 - 16
Brokers (Cash Segment)	10,128	9,411	6,147	6,736
Corporate Brokers (Cash Segment)	5,113	4,917	3,757	3,924
Sub Brokers (Cash Segment)	70,242	51,885	42,351	45,735

- Largest number of listed companies in the world–5624 as of 31st Mar' 2015 (BSE).
- 1st (NSE) and 5th (BSE) most liquid exchange globally for Index Options.
- 3rd (NSE)and 9th (BSE) largest exchange in the world in terms of number of trades in Equity Shares
- 2nd and 3rd largest in the world in terms of number of currency futures contracts traded (NSE and BSE resp.)
- Number of Investor Accounts (March-15): 13.71 million (NSDL) and 9.61 million (CDSL).

Indian Capital Market - Some selected figures

In billion $

Year/Month	Capital Raised from the Primary Market through Public and Rights Issues	Foreign Portfolio Investment	Foreign Portfolio Investment: Cumulative	Assets with Mutual Funds at the End of Period	Market Capitalization of NSE
2009 – 10	12.20	30.25	89.33	130.20	1274.26
2010 – 11	14.88	32.23	121.56	130.33	1475.01
2011 – 12	9.79	18.92	140.48	118.56	1230.88
2012 – 13	5.98	31.05	171.53	129.35	1150.48
2013 – 14	9.56	8.88	180.41	141.82	1259.66
2014 – 15	3.16	45.70	226.10	178.33	1635.50
2015 – 16	3.87	41.56	247.23	192.65	1843.37

Bond Markets

Bond markets witnessed heightened volatility during the year 2015 with the longer end of the curve underperforming significantly despite an enhanced limit for FPIs and rate cuts primarily owing to an increased supply at the long end by government. However, the shorter end of the curve witnessed gains as it responded to the rate cuts and limited supply.

Going forward, the Reserve Bank has maintained its accommodative stance and has kept the doors open for rate cuts as and when room is available, which is likely to keep the bond market sentiments positive. However, the pace of US Fed rate hike and development in China are likely to keep the markets volatile and on fence. Nevertheless, strong domestic macros are likely to support the market in medium to long term. We believe the focus of investors should remain at the shorter end to mid end of the yield curve as it is more likely to respond favourably in the case of a positive bias. The longer end of the curve might continue to feel the pressure from government borrowings well into the next year as well.

Equity Markets

The year 2015 witnessed high volatility in equity markets as global headwinds in the form of the Greece Crisis, China currency devaluation, falling commodity prices and US Fed rate hike kept the markets under pressure. Executive actions from the government across the infrastructure sector, defense, insurance, banking, etc. kept the market hopeful of the government's intent of improving the business scenario. The positive action from the government and falling energy prices helped the Indian economy to build stability during the year. Though, benchmark indices closed down nearly 4 percent, their midcap and small cap counterparts witnessed resilience. Domestic investors showed confidence in the Indian economy and poured a record Rs. 67,000 crores in Indian equities while FPIs investment stood at Rs 13,000 crores.

Going forward, the earnings expectations of FY16 have been significantly cut. While there has been considerable improvement in macro variables, the same has not yet favourably impacted the corporate earnings owing to lower rural demand, currency headwinds and delay in the revival of investment cycle. We do expect a pick up on corporate earnings with full transmission of interest rate and impact of lower commodity prices translates to lower input costs for corporate. Medium term risk in the form of global growth slowdown and slow movement of critical reforms to push through may continue to weigh on market sentiments. Nevertheless, we continue to remain overweight on equities as an asset class with expectations of improvement in corporate balance sheet and revival of investment cycle.

On commodities front, Gold as an asset class may continue to witness headwinds with low inflation and a strong US dollar. Gold might continue to remain volatile with negative bias as real yields continue to weigh on Real assets.
The year 2016 is likely to remain good for the financial assets rather than real assets. Though volatility in markets is likely to persist, patience will be the key for investors across asset classes.

Conclusion

As a conclusion it can be said that the role of stock market for the betterment of a country's economy can never be ignored. A clear policy decision from government, vigilant eye from the regulators, transparency from the stock exchanges and prudent action by the brokers and financiers is the requirement of the day to maintain the growth rate on the Capital Market. Capital market confirms the availability of liquidity for corporations which can add to economy of the country by producing goods and offering employment opportunities. Thus a country should focus on the stock market in order to strengthen its economy. A strong capital market provides the foundation for a developed economy.

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