Research Paper
Impact Factor: 6.304
Peer Reviewed & Indexed Journal
www.iibarr.com

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

AN ANALYSIS OF CAPITAL MARKETS AND ECONOMIC GROWTH OF INDIA

D Swapna * Dr K Ramakrishna Reddy**

*Ph.D Research Scholar,Sri Krishnadevaraya Institute of Management,Sri Krishnadevaraya University,Ananthapuramu.

**Professor & Former Vice-Chancellor,Sri Krishnadevaraya Institute of Management,Sri Krishnadevaraya University,Ananthapuramu.

Abstract

The role of capital market to the nation's building in terms of achievement of sustainable development is impeccable and the rise in the growth of the capital market is showing positive relationship with the development of economy. Capital markets leads to the development of industry and commerce via the public and private sectors, thereby inducing economic growth. In this paper, an attempt is made to understand the significance of capital market towards economic growth of India. The study is based on the secondary data collected from the reports of SEBI, RBI, AMFI, IRDAI and other research reports published by independent organizations. The study reveals the statistical analysis on the contribution of the capital market towards the GDP growth rate for the period in between 2008-09 to 2017-18.

Key words: Market Capitalization, Mutual Funds, Primary market, Insurance penetration.

1. Introduction

Capital market is a platform where investors and buyers get into the trade of financial securities, including stocks, bonds and so on. The transactions may be is carried out by participants such as individuals or even institutions. Capital market helps in channelizing excess funds from savers to the organizations, which later invest them into something productive. In general, the market trades mostly in long-term securities.

Capital market includes primary markets and secondary markets. The primary market includes the trade of new issues of stocks and other securities. On the other hand, secondary market deals with exchange of previously issued securities. Another crucial division in the capital market is made on the basis of the nature of security trades, i.e., stock market and bond market. The capital market gathers different investors who have capitals along with the companies seeking capital through debt and equity instruments. Secondly, and more importantly he capital markets offer a secondary market where the investors in these securities can exchange them among themselves at the standard market prices.

With the liquidity created by a secondary market, investors would not be interested in purchasing equity and debt instruments for fear of being unable to unload them in the future. The capital market functions also help investors, such as those who have supplies to spend in long-term economic assets, in many ways:

a. The consumers and sellers of bonds brought together and as a result, ensure the marketability of properties.
b. Through advertising security prices, the Stock Exchange, the Forex trading, allows investors to keep track of their investments and publicize them into most lucrative lines.
c. Other than that, it protects the welfare by balancing them from the Stock Exchange Compensating Fund in the event of deception and evasion.

2. Significance of Capital Market towards Economic Growth

The Capital Markets are economic markets bringing sellers and buyers together. Many of the Capital Markets are doing Forex trading, stocks, bonds, and other economic assets globally. The role of the capital market has been studied for many years (Goldman 1998), although not thoroughly (Goldman 1997). Economic theories have tried to distinguish between capital market & investment and investment is, therefore, an empirical matter. Also, this economic market assists small businesses in developing into big companies and supporting people with ideas to become entrepreneurs. More so, it gives individuals opportunities to invest and save some money for the future.

Therefore, the Capital market provides Forex Trading Brokers loans, consultancy services, rupee loans, and underwriting.

The capital market boosts economic growth. Thus, the various institutions, which operate in the capital market, give qualitative and quantities of direction to the flow of funds and bring a balanced allocation of resources.

a. **Creating a Bridge Between Suppliers of Capital and Users:** The contact between agents with a monetary deficit and the ones with monetary surplus can take place directly through direct financing, but also through a financial intermediary in form of indirect financing, which is a situation whereby specific operators facilitate the connection between the real economy and the financial market. In this case, the financial intermediaries could be banks, investment funds, pension funds, insurance companies, or other non-bank financial institutions,

b. **Promoting saving and Investments:** The capital markets increase the proportion of long-term savings (pensions, life covers, etc.) that is channelled to long-term investment. Capital markets enable the contractual savings industry (pension and provident funds, insurance companies, medical aid schemes, collective investment schemes, etc.) to mobilize long-term savings from small individual household and channel them into long-term investments. It fulfils the transfer function of current purchasing power, in monetary form, from surplus sectors to deficit sectors, in exchange for reimbursing a greater purchasing power in future. In this way, the capital markets enable corporations to raise funds to finance their investment in real assets. The implication will be an increase in productivity within the economy leading to more employment, increase in aggregate consumption and hence growth and development. It also helps in diffusing stress on the banking system by matching long-term investments with long-term capital. It encourages broader ownership of productive assets by small savers. It enables them to benefit from economic growth and wealth distribution, and provides avenues for investment opportunities that encourage a thrift culture critical in increasing domestic savings and investments that translate to economic growth.

c. **Facilitating Efficient Allocation of Scarce Financial Resources:** The capital markets facilitate the efficient allocation of scarce financial resources by offering a large variety of financial instruments with different risk and return characteristics. This competitive pricing of securities and large range of financial instruments allows investors to better allocate their funds according to their respective risk and return appetites, thereby supporting economic growth.

d. **Financing Utility and Infrastructure Development:** The capital markets also provide equity capital, debt capital and infrastructure development capital that have strong socio-economic benefits through development of essential utilities such as roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. These projects are ideal for financing through the capital markets via long dated bonds and asset backed securities. Infrastructure development is a necessary condition for long-term sustainable growth and development. In addition, capital markets increase the efficiency of capital allocation by ensuring that only projects that are deemed profitable can successfully attract funds. This will, in turn, improve competitiveness of domestic industries and enhance ability of domestic industries to compete globally, given the current momentum towards global integration. The result will be an increase in domestic productivity which may spill over into an increase in exports and, therefore, economic growth and development.

e. **Financing Private Public Partnerships, "PPPs":** Capital markets promote PPPs, thereby encouraging participation of private sector in productive investments. The need to shift economic development from public to private sector to enhance economic productivity has become inevitable as resources continue to diminish. It assists the public sector to close the resource gap, and complement its effort in financing essential socio-economic development, through raising long-term project-based capital. It also attracts foreign portfolio investors who are critical in supplementing the domestic savings levels and who facilitate inflows of foreign financial resources into the domestic economy, thereby supporting economic growth.

3. Objectives of the Study

The main objective of the study is to examine the impact of select indicators of capital market on the economic growth in India. More specifically, the paper deals with mutual funds market in India, financial savings of the households in various investment avenues with special reference to proportion of savings in shares and debentures, Insurance penetration to GDP, stock market capitalization to GDP.

4. Methodology

The required data for the research paper is extracted from the reports of AMFI, SEBI annual reports, SEBI Hand book, RBI documents, IRDAI annual reports and the reports from select research agencies. Further, the growth indicators and statistics are extracted from the select e-papers, internet sources and journals. The period of the study is particularly restricted to 2008-09 to 2017-18.

5. Results & Discussion

The analysis of the survey results obtained from the survey is presented below.

A) Indicators of Economic Growth in India

As per the provisional estimates of Annual National Income, 2018-19 released by Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation, Government of India the GDP at current prices for the year is estimated at 190.10 lakh crore, showing a growth rate of 11.2 percent over the First Revised estimates of GDP for the year 2017-18 of 170.95 lakh crore. I.1.2 All sectors, except Agriculture, i.e., ‘Mining & Quarrying’, ‘Manufacturing’, ‘Electricity, Gas, Water Supply and Other Utility Services’, ‘Construction’, ‘Trade, Hotels, Transport, Communication on and Services Related to Broadcasting’, 'Financial, Real Estate & Professional Services’, and 'Public Administration, Defence and Other Services’ have registered growth rate of over 9.0 percent and above at Current Prices. I.1.3 The Gross National Income (GNI) at current prices is estimated at 188.17 lakh crore during 2018-19, as compared to 169.10 lakh crore during 2017-18, showing a rise of 11.3 percent. The per capita Net National Income (NNI) at current prices during 2018-19 is estimated to have attained a level of 126406 as compared to the estimates for the year 2017-18 of 114958 showing a rise of 10.0 percent.

The rate of gross domestic saving had increased marginally to 30.1 per cent of gross national disposable income (GNDI) in 2017-18 from declines in the previous two years (Table I.4). While the saving of private non-financial corporation’s had increased marginally, the general government’s disserving had increased. The household financial saving – the most important source of funds - had increased by 0.3 percentage points of GNDI, though it had remained much lower than 7.3 per cent during 2011-16. According to the data extracted from the annual report of IRDAI, 2018-19, the saving-investment gap has come down over the years, indicating that a larger part of the requirement to fund investment is being met through domestic resources and conversely, the town of resources from abroad has declined, net in which corresponds to the degree of openness of the economy. The household sector continues to remain the net supplier of funds to the deficit sectors, i.e., non-financial corporations and general government. In recent years, however, it is evident that resource gap of nonfinancial corporations, both public and private, has got significantly reduced, indicating that their investment needs are met through their internal resources. The drawdown on saving by the general government sector continues to remain at an elevated level.

FINANCIAL SAVINGS OF THE HOUSEHOLD SECTOR

(In percent of GNDI)

Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
A. Gross financial savings of which	**10.4**	**10.5**	**10.4**	**9.9**	**10.7**	**9.2**	**10.8**
1. Currency	1.2	1.1	0.9	1.0	1.4	-2.0	--
2. Deposits	6.0	6.0	5.8	4.8	4.6	6.3	--
3. Shares and debentures	0.2	0.2	0.2	0.2	0.3	0.2	--
4. Claims on government	-0.2	-0.1	0.2	0.0	0.5	0.4	--
5. Insurance funds	2.2	1.8	1.8	2.4	1.9	2.3	--
6. Provident and Pension funds	1.1	1.5	1.5	1.5	2.1	2.0	--
B. Financial liabilities	**3.2**	**3.2**	**3.1**	**3.0**	**2.7**	**3.0**	**4.3**
C. Net financial savings (A-B)	**7.2**	**7.2**	**7.2**	**6.9**	**7.9**	**6.2**	**6.5**

GNDI - Gross National Disposable Income; --: Not Available
***Note:** Figures may not add up to total due to rounding off.*
2. Data on components of gross financial saving are as per First Revised Estimates of 2016-17.
***Source:** NSO as published in RBI Annual Report 2018-19, Appendix Table 3B*

Figure-1: Financial Savings of Households, extracted from IRDAI Annual report, 2018-19

B) **Growth of Mutual Funds Market in India**

The investments in mutual funds under various forms of avenues are presented for the period in between 2008-09 to 2017-18. The investments in mutual funds have decreased from a loss of Rs. 45811 crore to a health growth of Rs.144682 crore in between 2008-09 to 2017-18. The fund wise results show that equity segment is most dominating segment followed by debt. 2014-15 year saw highest value of amount invested in mutual funds.

Table-1,**Performance of Mutual Funds Market in India**

Financial Year	INR crores				
	Equity	**Debt**	**Debt-VRR**	**Hybrid**	**Total**
2008-09	-47706	1895	0	0	-45811
2009-10	110221	32438	0	0	142658
2010-11	110121	36317	0	0	146438
2011-12	43738	49988	0	0	93726
2012-13	140033	28334	0	0	168367
2013-14	79709	-28060	0	0	51649
2014-15	111333	166127	0	0	277461
2015-16	-14172	-4004	0	0	-18176
2016-17	55703	-7292	0	0	48411
2017-18	25635	119036	0	11	144682

Source: NSDL reports, 2018-19.

Figure-1 presents the trend in the investments in mutual funds from 2008-09 to 2017-18. The line graph show that both in 2008-09 and 2015-16, the fund investments have declined and the rest of the years show slightly fluctuating in a positive direction.

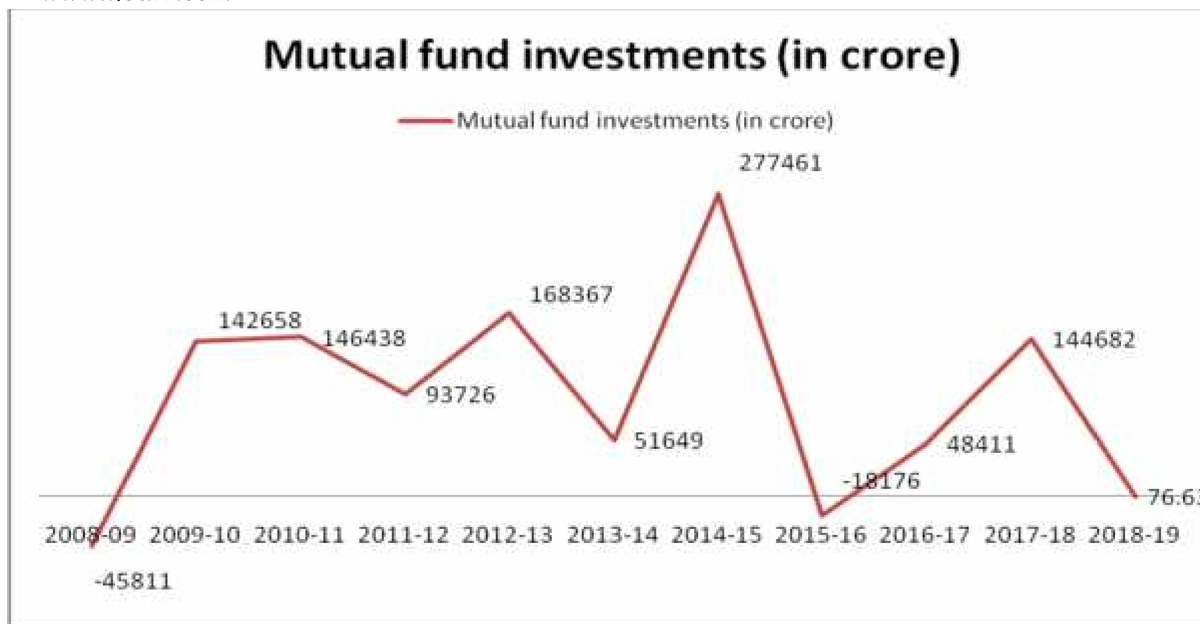

Figure-2: Growth trends in mutual funds investments

C) **Analysis on Penetration in Insurance Industry and GDP Growth Rate**

Most of the capital market deals for insurance companies are still primarily financially driven. To strengthen their capital position, companies can raise equity or debt, and more recently also hybrid capital. The insurance sector is capable of raising substantial amounts of equity in the market. Moreover, the access to the debt markets has improved substantially for insurers over the last few years. The market has gained a better insight into the credit risk for insurers. Pricing of senior debt transactions has become a more standardized practice. Overall, the credit spread of debt transactions in insurance is fairly similar to the credit spread in banking. Where in the past, insurers without a strong credit rating had to rely on reinsurance; they can today more easily issue debt in the market place. Hybrid capital is being raised in all different sorts and formats, with the quality of the hybrid capital covering the broad area between equity and bonds. Hybrids make up for a large part of the primary capital market transactions in insurance. The structures of the deals are still very much governed by national legislations and regulators. Some structures are not allowed in certain countries and similar structures can have very different tax implications, impacting the returns for issuers (and investors). Table- presents the penetration rate of Insurance sector in India from 2008-09 to 2017-18.

Table-2,Insurance Penetration in India between 2008-09 to 2017-18

Year	Penetration rate of Insurance sector
2008-09	**4.60**
2009-10	**5.20**
2010-11	**5.10**
2011-12	**4.10**
2012-13	**3.96**
2013-14	**3.90**
2014-15	**3.30**
2015-16	**3.44**
2016-17	**3.49**
2017-18	**3.69**

Source: IRDAI Annual report, 2018-19

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

The measure of insurance penetration and effects the level of development of density re insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium).

During the first decade of insurance sector liberalization, the sector has reported consistent increase in insurance penetration from 2.71 percent in 2001 to 5.20 percent in 2009. Since then the level of penetration was declining. However, there was a slight increase in the years 2015 percent), in 2016 (3.49 percent), in 2017 (3.69) and in 2018 (3.70). The level of insurance density reached upto USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. However, there was a slight decline further, but regained its position gradually and has become USD 74 in the year 2018, (USD 73 in 2017).

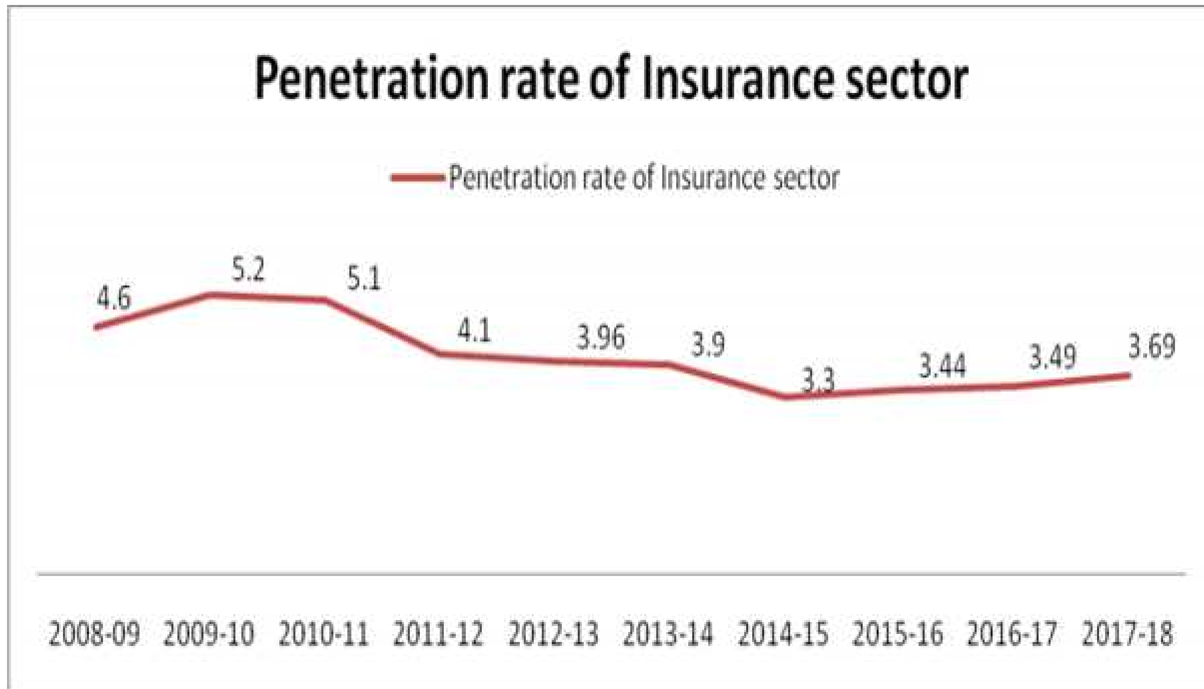

Figure-3: Penetration rate of Insurance Sector compiled from IRDAI Annual report, 2018-19.

D) Study on Market Capitalization to GDP ratio

The stock market capitalization in India and other countries is calculated as the number of shares traded on the stock exchange times their prices. It is a measure of the size of the stock market in the country. It is usually reported as percent of GDP so that we can evaluate the size of the stock market relative to the size of the economy. Stock market capitalization of about 50 percent of GDP and more is an indication of a well developed stock market. Yet, in most countries the stock market almost does not exist. The capitalization there is close to zero. The Market capitalization (also known as market value) is the share price times the number of shares outstanding (including their several classes) for listed domestic companies. Investment funds, unit trusts, and companies whose only business goal is to hold shares of other listed companies are excluded. Data are end of year values.

The size of the stock market relative to the size of economy in India is computed for period 2008-09 to 2018-19, the trends show that the stock market capitalization ranges in between 53.98 and 97.36 percent. Consistently there is an increase in the stock market capitalization right from 2008-09 to 2018-19.

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

Table-2,Stock Market Capitalization percent of total GDP in India

Year	Stock market capitalization, percent of GDP
2008-09	**53.98**
2009-10	**97.36**
2010-11	**97.39**
2011-12	**55.25**
2012-13	**69.12**
2013-14	**61.34**
2014-15	**76.42**
2015-16	**72.08**
2016-17	**68.4**
2017-18	**87.91**
2018-19	**76.63**

Source: SEBI reports

6. Conclusions

The capital market in India has grown steadily over years and it has shown the positive impact on the growth of the economy in India. Through various avenues, the capital market has contributed significant to the Indian economy. The study reveal that, the household sector in India especially, the financial savings of the individuals in the shares and debentures is only about 0.2 percent from the gross financial savings of 10.4 percent. The growth of mutual funds has contributed positive impact on the economy. The insurance penetration which is the proportion of the insurance premium to GDP is approximately 3.69 percent. The data reveal that, the stock market capitalization to GDP is over 50 percent in the last 10 years and this show that the stock market has steadily contributing to the growth of the GDP which is one of the indicators of the economic growth in India. Overall, it is clearly to state that despite the proportion of contribution of capital market to the Indian economy is less in comparison with other markets and sectors, yet, the various segments of capital market have significantly contributing to the overall economic growth in India.

References

1. Cytonn Report on “The Role of the Capital Markets in Economic Development”, 2019.
2. SEBI Hand Book, 2018-19.
3. RBI documents accessed from Reserve bank of India, 2019-20.
4. IRDAI Annual Report, 2017-18 and 2018-19.
5. NSO Reports, 2015-16 to 2017-18.
6. https://eaglesinvestors.com/news/capital-markets-functions/
7. https://timesofindia.indiatimes.com/business/faqs/market-faqs/what-is-capital-market-in-india/articleshow/63202744.cms
8. https://fred.stlouisfed.org/series/DDDM01INA156NWDB
9. https://blog.investyadnya.in/market-cap-to-gdp-ratio-the-buffett-indicator/