

Indian Capital Market: Growth, Challenges and Future

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Abstract

The capital market in emerging economies like India has exhibited a strong growth momentum, driven by a robust economic demand, consumption and savings rate.

The history of Indian capital market dates back to the eighteenth century with East India Company. In early 1990's, India figured low in global ranking of the state of capital markets. The reforms, adoption of sophisticated IT tools in trading and settlement mechanism has placed India in lead.

The National Stock Exchange has played an important role in this transformation. The establishment of screen based trading; shorter settlement periods, dematerialisation and derivatives have been other major developments.

The National Stock Exchange has overseen enormous growth in derivatives trading. But with the global integration the widening and intensifying of links between high income developing countries, which have accelerated over years. The capital market also poses major challenges as of taming derivatives, regulatory overhang, the demise of proprietary trading, sustained volatility and increased concentration etc. So there is a requirement for further development in Capital Market.

Keywords: Capital Market, NSE, Reforms, Derivatives, SEBI.

Introduction and Meaning

Capital Market is a market for long-term funds. Capital market focuses on financing of fixed investment. Capital market channelizes household savings to the corporate sector and allocates funds to firms. Capital market enables the valuation of firms on an almost continuous basis and plays an important role in the governance of the corporate sector. An efficient capital market is an important constituent of a sound financial system. In India

efforts have been made in recent years to set up an effective regulatory framework covering major participants in the capital market.

A stock market deals mainly in corporate securities. The securities are chiefly in form of equity shares and debentures. The purpose of these securities is to raise long term funds for companies engaged in production. The function of the stock market is twofold: (a) to arrange for rising of new capital and (b) to provide liquidity to existing securities.

The securities market has two interdependent and inseparable segments, namely, the new issues (primary) market and the stock (secondary) market. The primary market provides the channel for the creation and sale of new securities, while the secondary market deals in the securities that were issued previously. The securities issued in the primary market are issued by public limited companies or by government agencies. The resources in this kind of market are mobilized either through a public issue or through a private placement route. If anybody can subscribe for the issue, it is a public issue; if the issue is made available only to a select group of people, it is known as private placement. There are two major types of issuers of securities—corporate entities, who issue mainly debt and equity instruments, and the government (central as well as state), which issues debt securities (dated securities and treasury bills).

The secondary market enables participants who hold securities to adjust their holdings in response to changes in their assessment of risks and returns. Once new securities are issued in the primary market, they are traded in the stock (secondary) market. The secondary market operates through two mediums, namely, the over-the-counter (OTC) market and the exchange-traded market. The OTC markets are informal markets where trades are negotiated. Most of the trades in government securities take place in the OTC market. All the spot trades where securities are traded for immediate delivery and payment occur in the OTC market. The other option is to trade using the infrastructure provided by the stock exchanges. The exchanges in India follow a systematic settlement period.

Review of literature

Sayuri Shirai in her paper impact of financial and capital market reforms on corporate finance in India(2004)studied India's financial and capital market reforms since the early 1990s have had a positive impact on both the banking sector and capital markets. Nevertheless, the capital markets remain shallow, particularly when it comes to differentiating high-quality

firms from low-quality ones (and thus lowering capital costs for the former compared with the latter).

Pandya (1992) observes that as a regulatory and development body, SEBI's efforts in the direction of investor protection are varied and unlimited. The measures brought in by SEBI broadly cover measures for allocative efficiency in the primary market with fair degree of transparency, reforms in the secondary market for visible and mutual funds, regulation of various market intermediaries and above all for the protection of the investing public.

Venkateshwar (1991) explores the relationships of the Indian stock markets as reflected by the Bombay Stock Exchange Index, vis-a-vis other prominent international stock markets. 23 international Stock indices are used over the period 1983-87. He concludes that there is practically no meaningful relationship between the BSE index and other international stock market indices, though the British and South Korean indices are inversely related to BSE.

Raghunathan and Varma (1992a) point out that any comparison of the Indian stock market with those elsewhere must be carried out on a common currency base. They find that in dollar terms, the SENSEX return over the 1960-92 period is only about 0.5%, while during the same period the returns in the U.S. (based on the S & P Index) and the Japanese (based on the NIKKEI index) are 6.1% and 11.4% per year respectively. Over the twelve year period 1980-92, the dollar returns for SENSEX, S & P and NIKKEI indices turn out to be 6.5%, 10.65% and 13.6% respectively. For a shorter span of seven years, namely 1985-92, the returns for the three indices turn out to be quite comparable at 15%, 13% and 14% respectively.

Juhi Ahuja presented a review of Indian Capital Market & its structure. In last decade or so, it has been observed that there has been a paradigm shift in Indian capital market. The application of many reforms & developments in Indian capital market has made the Indian capital market comparable with the international capital markets. Now, the market features a developed regulatory mechanism and a modern market infrastructure with growing market capitalization, market liquidity, and mobilization of resources. The emergence of Private Corporate Debt market is also a good innovation replacing the banking mode of corporate finance. However, the market has witnessed its worst time with the recent global financial crisis that originated from the US sub-prime mortgage market and spread over to the entire world as a contagion. The capital market of India delivered a sluggish performance.

RH Patil(2006) investigated 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.

Richa Gupta, Deepti Capital (2014) studied the market in any country plays a pivotal role in the growth of economy and meeting country's socio economic goals. They are an important constituent of the financial system, given their role in the financial intermediation process and capital formation of the country. The importance of the capital market cannot be underemphasized for developing economy like India which needs significant amount of capital for the development of strong infrastructure.

History of Indian Capital Market:

The history of the capital market in India dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century, securities trading was unorganized and the main trading centres were Bombay (now Mumbai) and Calcutta (now Kolkata). Of the two, Bombay was the chief trading centre wherein bank shares were the major trading stock. During the American Civil War (1860-61). Bombay was an important source of supply for cotton. Hence, trading activities flourished during the period, resulting in a boom in share prices. This boom, the first in the history of the Indian capital market, lasted for a half a decade. The first joint stock company was established on 1850. The bubble burst on July 1, 1865, when there was tremendous slump in share price

In the post-independence period also, the size of the capital market remained small. During the first and second five-year plans, the government's emphasis was on the development of the agricultural sector and public sector undertakings. The public sector undertakings were healthier than the private undertakings in terms of paid-up capital but their shares were not listed on the stock exchanges. Moreover, the Controller of Capital Issues (CCI) closely supervised and controlled the timing composition, interest rates, pricing, allotment, and floatation costs of new issues. These strict regulations demotivated many companies from going public for almost four and a half decades.

In the 1950s, Century Textiles, Tata Steel, Bombay Dyeing, National Rayon, and Kohinoor Mills were the favourite scrips of speculators. As speculation became rampant, the stock market came to be known as Satta Bazaar. Despite speculation, non-payment or defaults were not very frequent.

The government enacted the Securities Contracts (Regulation) Act in 1956s was also characterized by the establishment of a network for the development of financial institutions and state financial corporations.

When In the 1970s, badla trading was resumed under the disguised form of hand-delivery contracts A group. This revived the market. However, the capital market received another severe setback on July 6, 1974, when the government promulgated the Dividend Restriction Ordinance, restricting the payment of dividend by companies to 12 per cent of the face value or one- third of the profits of the companies that can be distributed as computed under section 369 of the Companies Act, whichever was lower.

Foreign Exchange Regulation Act (FERA) 1973: required all foreign-controlled rupee companies to dilute foreign equity hold to 40 per cent, though the law's implementation depended on the firms' relative bargaining power vis-a-vis the government. However, in most cases, these firms did not disinvest their holding. Instead they issued fresh equities to Indian public, thus reducing their share in the paid-up capital. Without losing their controlling interest in most cases.

Capital Market in Pre-Reforms (i.e. pre-1991) period

Prior to the onset of financial sector reforms in 1991, the capital market structure in India was subject to several controls and opaque procedures. The trading and settlement system was outdated and not in tune with international practices. Raising of capital from the market was regulated by the capital issues act, 1947 which was administered by the controller of capital issues in the ministry of finance, government of India. Similarly the securities contract act was administered by the directorate of stock exchanges also in the ministry of finance. It empowered the government to recognise/derecognise stock exchanges, stipulate rules and bye-laws for their functioning, compel listing of securities by public companies etc. Such a

system of regulation was fragmented and inadequate in context of liberalisation wave sweeping across the world.

Prior to reforms, the Bombay Stock Exchange (BSE) was a monopoly. It was an association of brokers and imposed entry barriers, which lead to increased costs of intermediation. Trading took place by 'open outcry' on the trading floor, which was inaccessible to users. It was usual for brokers to charge the investors a much higher price from that actually traded at. As with all trading floors there was no price time priority so the users of the market were not assured that a trade was executed at the best possible price.

A variety of manipulative practices prevailed, so that external users of a market often found themselves at the losing end of price movements. The market used 'future-style settlement' with fortnightly settlement. This means that trading was supposed to take place for a fortnight until a predetermined 'expiration date'. Open positions on the expiration date only would go into actual settlement where funds and securities were exchanged.

Companies Act, 1956:

It deals with the issue, allotment, and transfer of securities, as well as various aspects relating to company management. It provides the standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and the management's perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights, and bonus issues, the payment of interest and dividends, the supply of annual reports, and other information.

Reforms in capital market:

With the objective of improving market efficiency, increasing transparency, integration of national markets and prevention of unfair practices regarding trading, a package of measures has been introduced to liberalise, regulate and develop capital markets in India. Since 1992, reforms measures have mainly being focussed on regulatory effectiveness, boosting competitive conditions, reducing information asymmetries, instigating transaction costs and controlling of speculation in securities market.

Introduction of free pricing:

Raising of capital from the securities market before 1992 was regulated under the capital issues control act 1947. Firms were required to obtain the approval from the controller of capital issues for raising resources in the market. New companies were allowed to issue shares only at par. Only the existing companies with substantial reserves could issue shares at premium, which was based on prescribed formula. In 1992, the capital issues act, 1947 was repealed and this ended all controls related to raising of resources from the market. Restrictions on rights and bonus issue have also been removed. New as well as established companies are now able to price their issues according to their assessment of market conditions. However issuers of capital are required to meet the guidelines of SEBI on disclosure and investor protection. Companies issuing capital are required to make sufficient disclosures, including justification of the issue price and also material disclosure about the risk factors in their offer prospectus. In the interest of investors, SEBI issued Disclosure and Investor Protection (DIP) guidelines. The guidelines allow issuers, complying with the eligibility criteria, to issue securities the securities at market determined rates. The market moved from merit based to disclosure based regulation

Screen Based Trading:

A major developmental initiative was a nation-wide on-line fully-automated screen based trading system (SBTS) where a member can punch into the computer quantities of securities and the prices at which he likes to transact and the transaction is executed as soon as it finds a matching sale or buy order from a counter party.

Screen based trading makes on-line, electronic, anonymous and order-driven transactions possible. It is a transparent system which provides equal access to all investors, irrespective of their geographical locations.

SBTS electronically matches orders on a strict price/time priority and hence cut down on time, cost and risk of error, as well as on fraud resulting in improved operational efficiency. It allowed faster incorporation of price sensitive information into prevailing prices, thus increasing the informational efficiency of markets. It enabled market participants to see the full market on real-time, making the market transparent. It allowed a large number of participants, irrespective of their geographical locations, to trade with one another

simultaneously, improving the depth and liquidity of the market – over 10,000 terminals creating waves by clicks from over 400 towns / cities in India. It provided fully anonymity by accepting orders, big or small, from members without revealing their identity, thus providing equal access to everybody. It also provided a perfect audit trail, which helps to resolve disputes by logging in the trade execution process in entirety. The SBTS shifted the trading platform from the trading hall of an exchange to brokers' premises

The move to an electronic trading system has resulted in transparency in trades, better price discovery and lower transaction cost. The operational efficiency of the stock market has also been strengthened through improvements in the clearing and settlement practices and the risk management process. Almost the entire delivery of securities now takes place in dematerialised form.

Establishment of Securities Exchange Board of India:

SEBI was set up in April 1988 by an administrative order and acquired a statutory status in 1992 on recommendations of the Narasimham Committee. It was enacted to empower SEBI with statutory powers for (a) protecting the interests of investors in securities, (b) promoting the development of the securities market, and (c) regulating the securities market, (d) registering and regulating the working of collective investment schemes including Mutual Funds, (e) promoting and regulating the self regulatory organisations, (f) prohibiting fraudulent and unfair trade practice, relating to securities markets, (g) promoting investors education and training of intermediaries of securities market, (h) prohibiting the insider trading of securities . Its regulatory jurisdiction extends over corporate in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with the securities market. It can conduct enquiries, audits, and inspection of all concerned, and adjudicate offences under the Act. It has the powers to register and regulate all market intermediaries, as well as to penalize them in case of violations of the provisions of the Act, Rules, and Regulations made there under. SEBI has full autonomy and the authority to regulate and develop an orderly securities market.

SEBI has been vested with wide-ranging powers. Firstly, to oversee constitution as well as operations of mutual funds including presentation of accounts, following the decision to allow the entry of the private sector and joint sector mutual funds. Secondly, all stock exchanges in the have been brought under the annual inspection regime of SEBI for ensuring orderly growth of stock markets and investors protection. Thirdly, with the repealing of the

Capital Issues (control) Act, 1947, in May 1992, SEBI has been made the regulatory authority in regard to new issues of companies.

National Stock Exchange of India:

NSE was set up in November 1992 and was owned by IDBI, UTI and other public sector institutions. It commenced its operations in 1994. NSE is a securities exchange which marks a radical break with the past. The regime in which trading on NSE operates is characterised by four key innovations (1) the physical floor was replaced by anonymous computerised order matching with strict price time priority. (2) The limitations of being in Mumbai, and the limitations of India's public telecom network, were avoided by using satellite communications. (3) NSE is not 'owned' by brokers. It is a limited liability company, and brokers are franchisees. (4) Traditional practices of unreliable fortnightly settlement cycle with the escape clause of badla were replaced by a strict weekly settlement cycle without badla. The improvements that accompanied this regime were as follows: (a) transparency-users could look at a price on a computer screen before placing an order. (b) anonymity-electronic trading is completely transparent about price and quantities, and completely opaque about identities. (c) Competition in the brokerage industry-as a result of NSE about 1000 new brokerage firms has entered the market. This reduced the transaction cost sharply. (d) Operational efficiency-automation eliminated the vagaries of manual trading. (d) Gains outside Mumbai-NSE's satellite based trading gave equal access to the trading floor from all locations in India. NSE is now the world's largest derivative exchange. It currently operates with 10 trading engines and handles 450 million orders everyday with 50000 other messages per second for trading across asset classes.

Laundering Act, 2002:

The primary objective of this Act is to prevent money laundering, and to allow the confiscation of property derived from or involved in money laundering. According to the definition of "money laundering," anyone who acquires, owns, possess, or transfers any proceeds of crime, or knowingly enters into any transaction that is related to the proceeds of crime either directly or indirectly, or conceals or aids in the concealment of the proceeds or gains of crime within India or outside India commits the offence of money laundering. Besides prescribing the punishment for this offence, the Act provides other measures for the prevention of money laundering. The Act also casts an obligation on the intermediaries, the banking companies, etc. to furnish information of such prescribed transactions to the

Financial Intelligence Unit-India, to appoint a principal officer, to maintain certain records, etc.

National Securities Clearing Corporation:

Small counterparty risks could turn into large counterparty risks owing to cascading effects, jeopardising the functioning of the entire market. The NSE has set up a clearing corporation which provides legal counter party guarantee to each trade and thereby eliminates counter party risk. Attempts are being made to reduce the time gap between execution of trade and its settlement through rolling settlement. To tackle this problem, National Securities Clearing Corporation was set up in 1996. Every trade that takes place is freed from the risk of the counterparty defaulting. This automatically ends the risk of cascading failures generating a payment crisis. The NSCCL assures the counterparty risk of each member and guarantees financial settlement. Counterparty risk is guaranteed through a fine tuned risk management systems and an innovative method of on-line position monitoring and automatic disablement.

Shortening of settlement cycle:

Before the enactment of depository act 1996, Trades were settled by physical movement of paper. This had two aspects. First, the settlement of trade in stock exchanged by delivery of shares by the seller and payment by the purchaser. The process of physically moving the securities from the seller to the ultimate buyer through the seller's broker and buyer's broker took time with the risk of delay somewhere along the chain. The second aspect related to transfer of shares in favour of the purchaser by the company. The system of transfer of ownership was grossly inefficient as every transfer involved physical movement of paper securities to the issuer for registration, with the change of ownership being evidenced by an endorsement on the security certificate. In many cases the process of transfer took much longer, and a significant proportion of transactions ended up as bad delivery due to faulty compliance of paper work. Theft, forgery, mutilation of certificates and other irregularities were rampant

Risk management:

A number of measures were taken to manage the risks in the market so that the participants are safe and market integrity is protected. These include: Trading Cycle : The trading cycle varied form 14 days for others and settlement took another fortnight. Often this cycle was not adhered to. This was euphemistically often described at T+ anything. Many things could

happen between entering into a trade and its performance providing incentives for either of the parties to go back on its promise. This had on several occasions led to defaults and risks in settlement. In order to reduce large open position, the trading cycle was reduced over a period of time to a week initially. Rolling settlement on T+5 bases was introduced in phases. All scrips moved to rolling settlement from December 2001. T+5 gave way to T+3 from April 2002 and T+2 from April 2003.

Derivatives:

To assist market participants to manage risks better through hedging, speculation and arbitrage, SC(R)A was amended in 1995 to lift the ban on options in securities. The SC(R)A was amended further in December 1999 to expand the definition of securities to include derivatives so that the whole regulatory framework governing trading of securities could apply to trading of derivatives also. A three-decade old ban on forward trading, better known as BADLA, which had lost its relevance and was hindering introduction of derivatives trading, was withdrawn. Forward contracts in the Forex market have also been liberalised. OTC derivatives, viz Interest Rate Swaps (IRS) and Forward rate Agreements (FRAs) were introduced in July 1999. The IRS is a contract between two counterparties for exchange interest payment for a specified period based on a notional

Derivative trading took off in June 2000 on two exchanges. In India, derivative trading began in June 2000, with trading in stock index futures. By the fourth quarter of 2001, each of India's two largest exchanges had four equity-derivative products: futures and options for single stocks, and futures and options for their respective stock indices. The NSE has become the largest exchange in single stock futures in the world, and by June 2007, it ranked fourth globally in trading index futures, a sign of an evolving and maturing market.

Settlement Guarantee:

A variety of measures were taken to address the risk in the market. Clearing corporations emerged to assume counter party risk. Trade and settlement guarantee funds were set up to guarantee settlement of trades irrespective of default by brokers. These funds provide full novation and work as central counter party. The Exchanges / clearing corporations monitor the positions of the brokers on real times basis. Various measures taken over last decade or so have yielded considerable benefits to the market, as evidenced by the growth in number of market participants, growth in volumes in securities transactions, increasing globalization of

the Indian market, reduction in transaction costs, and compliance with international standards. In terms of number of trades, NSE is the third largest exchange in the world.

Qualified Institutional Placements 2009:

The Securities and Exchange Board of India (SEBI) introduced the qualified institutional placements (QIP) programme to allow companies to make offers through qualified institutional buyers (QIBs). One of the requirements of QIPs is only companies compliant with the listing agreement can make a QIP. Since many companies in the government and private sectors do not comply with the minimum public shareholding norms, they could not raise funds through the QIB route. The institutional placement programme (IPP) will help such companies make an offer to QIBs.

DIP Guidelines:

Major part of the liberalisation process was the repeal of the Capital Issues (Control) Act, 1947 in May 1992. With this, Government's control over issue of capital, pricing of the issues, fixing of premia and rates of interest on debentures etc. ceased and the market was allowed to allocate resources to competing uses. In the interest of investors, SEBI issued Disclosure and Investor Protection (DIP) guidelines. The guidelines contain a substantial body of requirements for issuers/intermediaries, the broad intention being to ensure that all concerned observe high standards of integrity and fair dealing, comply with all the requirements with due skill, diligence and care, and disclose the truth, whole truth and nothing but truth. The guidelines aim to secure fuller disclosure of relevant information about the issuer and the nature of the securities to be issued so that investor can take an informed decision. For example, issuers are required to disclose any material 'risk factors' in their prospectus and the justification for the pricing of the securities is to be given. SEBI placed a responsibility on the lead managers to give a due diligence certificate, stating that they have examined the prospectus, they find it in order and that it brings out all the facts and does not contain anything wrong or misleading. Though the requirement of vetting has now been dispensed with, SEBI has raised standards of disclosures in public issues to enhance the level of investor protection

Investor Protection:

The SEBI Act established SEBI with the primary objective of protecting the interests of investors in securities and empowers it to achieve this objective. SEBI specifies the matters to be disclosed and the standards of disclosure required for the protection of investors in respect of issues and issues directions to all intermediaries and other persons associated with the securities market in the interest of investors or of orderly development of the securities market. DEA, DCA, SEBI and exchanges have set up investor grievance cells for redressal of investor grievance. The exchanges maintain investor protection funds to take care of investor claims, which may arise out of non-settlement of obligations by a trading member for trades executed on the exchange. DCA has also set up an investor education and protection fund for the promotion of investors' awareness and protection of interest of investors. All these agencies and investor associations are organising investor education and awareness programmes.

International Initiatives Principles of Securities Regulation:

In February 2002, IOSCO released a new version of the Objectives and Principles of Securities Regulation, which supersedes the one released in September 1998. It aims to provide advice and a yardstick against which progress towards effective regulation can be measured. IOSCO members, including SEBI, through their endorsement to these principles, intend to use their best endeavors within their jurisdiction to ensure adherence to these principles. These principles are discussed below: Regulator 1. The responsibilities of the regulator should be clear and objectively stated. This requires a clear definition of responsibilities, preferably set out by law; strong cooperation among responsible authorities through appropriate channels; and adequate legal protection of regulators and their staff acting in bonafide discharge of their functions and powers. Any division of responsibility should avoid gaps and inequities in regulation. 2. The regulator should be operationally independent and accountable in the exercise of its functions and powers. Independence is enhanced by a stable source of funding for the regulator. Accountability implies: a regulator that operates independently of sectoral interests; a system of public accountability of the regulator; and a system of permitting judicial review of decisions of the regulator. 3. The regulator should have adequate powers, proper resources and the capacity to perform its function and exercise its powers. The regulator should have powers of licensing, supervision, inspection, investigation and enforcement and also access to adequate funding. 4. The

regulator should adopt clear and consistent regulatory processes. The regulator should have a process for consultation with the public including the regulated, publicly disclose its policies, observe standards of procedural fairness and have regard to the cost of compliance with the regulations. It should also play an active role in the education of investors and other participants in the capital market. 5. The staff of the regulator should observe the highest professional standards, including appropriate standards of confidentiality. They should be given clear guidance on conduct relating to conflict of interest, appropriate use of information obtained in course of duty, observance of confidentiality and secrecy provisions, observance of procedural fairness, etc.

Analysis:

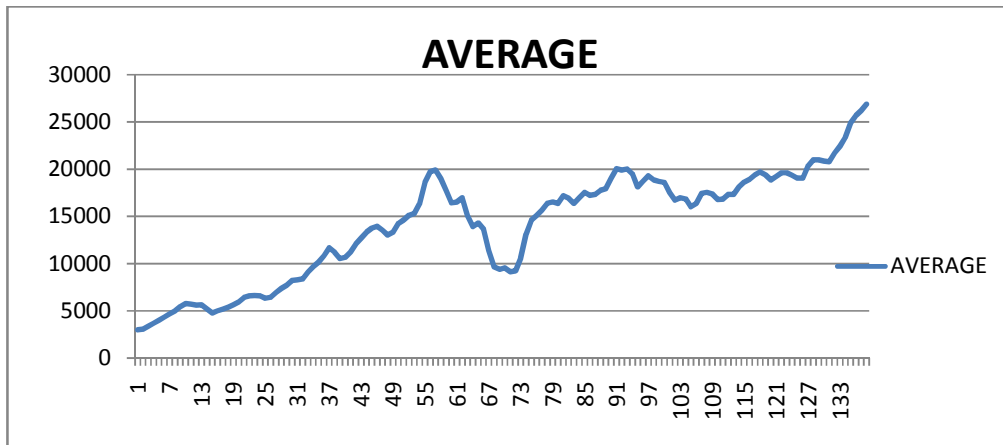


Fig-1

The above figure shows the growth in the average monthly SENSEX rate of BSE from 2003 till 2014. The rising curve shows the growth of the capital markets and increase in the volume of trades. The time span from 2008-2010 shows a dip and slow growth there after due to world economic slowdown.

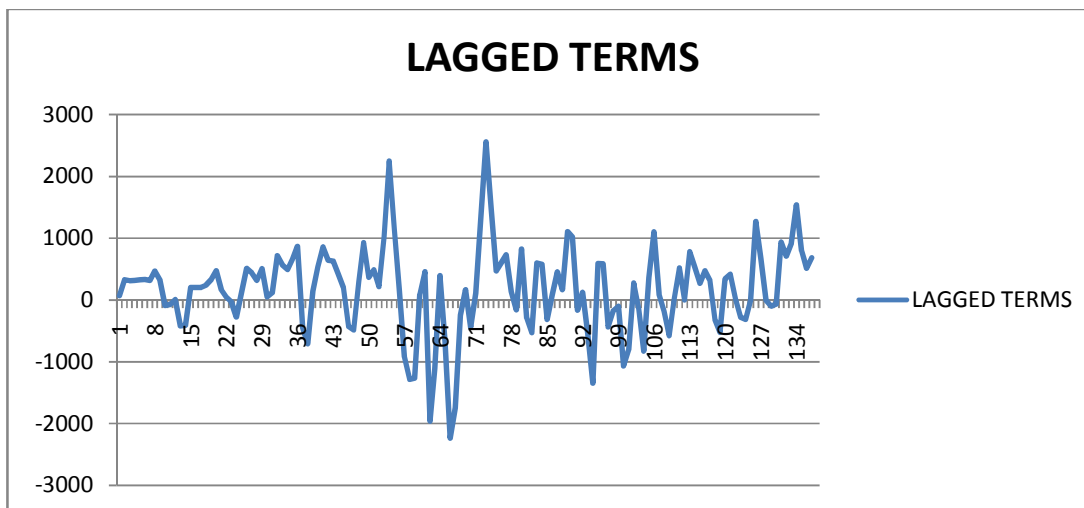


Fig-2

The above figure shows the growth of capital market. The monthly data is taken from April 2003 till March 2014. The sensdex rate of BSE is taken and average of opening and closing rates are taken to calculate the lagged values and the fluctuations can be seen from the above

diagram. The fall in the time period 61-67 is majorly due to economic slowdown in the year 2008-2009. The latest data shows a very high level of development and increase in this rate.

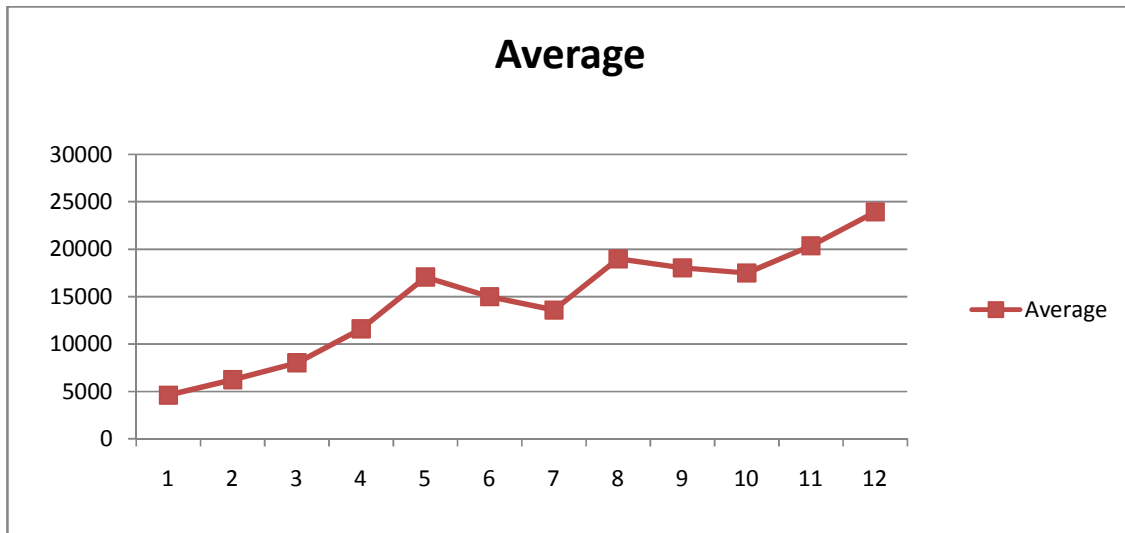


Fig-3

The above figure simply shows the rate of change and growth of BSE SENSEX from 2003-2014 annual data and growing rate showing growth in capital markets.

The following table shows the correlation value between GDP at constant prices of India from 2003-2013 annual data is taken and BSE SENSEX. The correlation coefficient is very high 0.90 which shows that they are very closely related and the growth in BSE SENSEX could also be due to GDP.

CORRELATION COEFFICIENT

Variables	SENSEX
GDP	0.90

Table no-1 Source- OECD

The above results can be used for future growth of capital markets with the help of growing GDP and other macroeconomic variables.

Conclusion

Global integration—the widening and intensifying of links—between high-income and developing countries has accelerated over the years. Over the past few years, the financial markets have become increasingly global. The Indian market has gained from foreign inflows through the investment of Foreign Institutional Investors (FIIs). Following the implementation of reforms in the securities industry in the past few years, Indian stock markets have stood out in the world ranking. As per Standard and Poor's Fact Book 2012, India ranked 11th in terms of market capitalization, 17th in terms of total value traded in stock exchanges, and 30th in terms of turnover ratio, as of December 2011. but there is still a need for further development and reforms.

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