4

CAPITAL AND MONEY MARKETS

The first nine months of the current financial year witnessed a noticeable decline in resource mobilisation from the primary market. During April-December, 2000, resource mobilisation through public and rights issues was 25.9 per cent lower than the sum raised in the corresponding period of the previous financial year. Though the amount raised through debt registered a greater decline by 32.3 per cent, the amount raised through the equity route also registered a significant decline by 21.9 per cent during this period. This mirrored the relatively weaker investor sentiment in the secondary market, which was also reflected in the net investment by Foreign Institutional Investors (FIIs). Net FII investment declined by 68.3 per cent to US $ 465.9 million in April-December, 2000 compared with the corresponding period of the previous financial year. Nevertheless, domestic firms, especially in the Information Technology sector, could tap the capital markets abroad through the ADR/GDR route in the current financial year also. Though the amount raised via this route may be less than the expected level on account of the erosion in share prices in leading markets like NASDAQ, the sum of US $ 696 million raised by Indian corporates in the first eight months via this route exceeded the net FII investment in the first nine months of the current financial year.

4.2 Net resource mobilisation by mutual funds during April-December 2000 almost halved to Rs.6,846 crore from Rs.12,193 crore in the corresponding previous period. This was due to a sharp increase in redemption/repurchase to Rs. 53,776 crore during April-December 2000 from Rs.23,720 crore in the corresponding previous period. Redemption/repurchase constituted 88.7 per cent of the gross resource mobilisation during April-December 2000 as against 66.0 per cent in the corresponding period of the previous financial year.

4.3 Contrary to the buoyant conditions witnessed in the stock market in 1999-2000, there was significant decline in share prices in the current financial year. The Bombay Stock Exchange (BSE) Sensitive Index (Sensex) declined by 13.5 per cent from 5001 at the close of March 2000 to 4327 at the close of January 2001. The National Stock Exchange (NSE) Index (S&P CNX Nifty) also exhibited similar trends in share prices. It declined by 10.2 per cent from 1528 to 1372 during the same period. This erosion in share prices at home reflected the influence of investment sentiment abroad, specially at the tech-heavy NASDAQ. Nevertheless, the decline in the BSE and NSE indices was much less than that at NASDAQ where the index declined by 39.4 per cent from 4573 at the close of March, 2000 to 2773 at the close of January, 2001. The current financial year also witnessed considerable increase in stock market volatility *vis-à-vis* the previous financial year. The coefficient of variation with respect to the average daily closing value of Sensex at the BSE exceeded 5 per cent in four out of the first ten months of the current financial year as against only in one month during the corresponding period of the previous financial year. Almost the same trend in volatility was observed at the NSE as well.

4.4 The process of capital market reforms designed to move towards a market that is modern in terms of infrastructure as well as international best practices, investor friendly, efficient, safe and globally competitive, continued. The reforms undertaken in respect of the primary market in the current financial year include extension of the relatively liberal IPO norms to companies in all the sectors, tightening of entry norms for IPOs through modifications to SEBI (Disclosure and Investor Protection) Guidelines, modified guidelines for book-building process including permission for 100 per cent one-stage book building with Bidding Centres at all cities with stock exchanges , modification of investment norms for mutual funds by restricting open-ended schemes to invest up to 10 per cent of their net asset value (NAV) in equity shares or in equity-related instruments of a single entity and relaxation of permissible level of funds of commercial banks for investment in capital market by replacing the earlier ceiling of 5 per cent of previous year's incremental deposits by 5 per cent of outstanding credit as on March 31, of the previous year.

4.5 The developments/reforms pertaining to the secondary market include commencement of derivatives trading with stock index futures at both NSE and BSE, further addition to the list of scrips under compulsory demat trading as well as rolling settlement, introduction of carry forward facility for 1, 2, 3, 4 or 5 days in the rolling settlement, commencement of internet based trading services, and permission for mutual funds to invest in mortgage backed securities.

4.6 The current financial year also witnessed a major reform in the money market in line with the recommendation made by the Committee on Banking Sector Reforms (Narasimham Committee II, 1998). The Reserve Bank has replaced the additional collateralised lending facility (ACLF) for banks and Level II support for PDs by variable reverse repo auctions and the fixed rate repo by variable rate repo auctions with effect from June 5, 2000.

4.7 The developments in the insurance sector relate to the setting up of the Insurance Regulatory and Development Authority (IRDA) on April 19, 2000. The IRDA has so far notified 15 Regulations, and issued licences to 10 companies in the current financial year.