

Outlook

4.42 The outlook for the capital market depends on the reforms contemplated in key areas like derivatives trading and the debt market. As regards derivatives trading, there is a need to take steps designed to enhance the volume of transactions in the stock index futures, which is now less than one per cent of that in the cash market. SEBI's Technical Group on New Derivative Products has recently examined this issue, and made recommendations aimed at increasing the volume of transactions in derivatives trading. These include the use of the system of sub-brokers for trading in derivatives market and measures to attract institutional investors to this market. In the developed markets, institutional investors, particularly mutual funds, pension funds and insurance companies rely on stock index futures to manage stock market risk. Investment in shares accounts for a significant proportion of the investment portfolio of mutual funds and insurance companies. The emergence of new companies in the Indian insurance sector assumes significance in this context. As regards FIIs, RBI has allowed them to trade in derivatives market, subject to the condition that the overall open position shall not exceed 100 per cent of market value of the concerned FII's total investment. As regards the debt market, net FII investment in debt is

BOX 4.5 (A)				
Stock Market Trends				
	Annual Average		Growth Rate (%)	
Item	1980-81 to 1991-92 (Period I)	1992-93 to 1999-2000 (Period II)	1980-81 to 1991-92 (Period I)	1992-93 to 1999-2000 (Period II)
Share Prices				
BSE (Sensex)	572	3537	28.9	14.7
P/E Ratio (Sensex)	24.4			

BOX 4.5 (B)		
Trends in Central Government Borrowing		
Item	1980-81 to 1991-92 (Period I)	1992-93 to 1999-2000 (Period II)
Gross Market Borrowing (Rs. crore)	6355	54033
Interest Rates (% per annum) (Nominal)	10.4	12.5
Interest Rates (% per annum) (Real)	2.7	5.4

relatively negligible. The banking and insurance sectors still account for the bulk of investment in Government securities. There is therefore a need to promote retailing of Government securities.