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Capital and Money Markets

The current financial year witnessed significant improvements to institutional mechanisms, where the equity market achieved major milestones in the form of complete switchover to rolling settlement and the extension of derivatives trading in equity to index options, stock options and stock futures. The onset of a full range of equity derivatives is an important land mark in the development of the Indian stock market. The closing month of calendar 2001 witnessed a significant increase in equity derivatives turnover at the National Stock Exchange (NSE) . As regards the Government debt market, the year has been characterised by significant moves for important developmental work which should help in transforming the market in the coming years. These relate to initiatives aimed at bringing about improvements to the market design of the debt market on the lines indicated by the Finance Minister in his Budget Speech for 2001-02. The Clearing Corporation of India Limited (CCIL) has already been set up and is expected to become operational in the near future. Similarly, a Negotiated Dealing System (NDS) is being introduced in phases to supplement or replace the current telephone mode used in trading on the fixed income market.

4.2 A bearish sentiment, however, dominated the stock market during the current financial year. Growing fears of a global economic slowdown, combined with reports about stock market irregularities, affected investor confidence. The Bombay Stock Exchange (BSE) Sensitive Index (Sensex) fell by 177 points on March 2, 2001, wiping out almost the entire post-budget gain. The Sensex fell to 3184 on April 12, 2001, registering a cumulative fall of 36.3 per cent from 5001 at the close of March 2000. The NSE Index (S&P CNX Nifty) also suffered a similar fall during this period. The decline in equity prices in leading stock markets abroad following the terrorist attack on the World Trade Centre (WTC) in the US on September 11, 2001 led to a further fall in the stock market fortunes in India as well. The uncertainty and panic resulting from the September crisis led to a sudden increase in sales by FIIs. The Sensex dropped to 2600 on September 21,2001, registering a fall of more than one thousand points from 3604 on the eve of the current financial year. The measures taken by the Government and the regulatory authorities, backed by improvement in investor sentiment abroad, facilitated significant recovery in the stock market. The Sensex regained more than 800 points to close at 3443 on December 10, 2001. However, the stock market again came under selling pressure, precipitated by developments following the terrorist attack on the Indian Parliament, and the Sensex lost around 180 points by the end of December 2001. Stock market prospects improved in the new year and the Sensex regained 232 points to close at 3494 on February 8 , 2002.

4.3 The amount raised through public and rights issues during the first nine months of the current financial year constituted around 90 percent of the relatively modest amount raised during the corresponding period of the previous financial year. Resource mobilisation through Initial Public Offers (IPOs) accounted for only 5.5 per cent of the total resource mobilisation during this period compared with 56.7 per cent in the corresponding period last year. The performance of the Unit Trust of India (UTI) was badly affected by the downtrend in the stock market. During April-December 2001, the outflow of funds from UTI exceeded inflows by Rs. 5,151 crore whereas during the corresponding period of the previous year inflows exceeded outflows by Rs. 480 crore.

4.4 The developments in the stock market on the eve of the current financial year brought to the fore the need for further measures aimed at promoting safety, transparency and efficiency of the capital market. In response to the developments involving a possible nexus between some market intermediaries and banks, including one urban cooperative bank, the Union Finance Minister proposed in March 2001 the following steps: (i) corporatisation of stock exchanges involving segregation of ownership, management and trading membership from each other, (ii) extension of rolling settlement to 200 "A" category stocks in Modified Carry Forward Scheme (MCFS), Automated Lending and Borrowing Mechanism (ALBM) and Borrowing and Lending Securities Scheme (BLESS) by July 2, 2001 and (iii) legislative changes aimed at further strengthening the provisions in the SEBI Act, 1992 to ensure investor protection. Following this, Securities and Exchange Board of India (SEBI) extended rolling settlement to all scrips included in the ALBM/BLESS/or MCFS in any stock exchange or in the BSE 200 list with effect from July 2, 2001. From December 31, 2001, all stocks are under rolling settlement in all stock exchanges. This constitutes one of the most far-reaching reforms in the history of India's capital market. Equally important has been the widening of the spectrum of equity derivatives to trading in options on both indices and stocks, and to stock futures, which started on July 2, 2001 and November 1, 2001 respectively. As regards corporatisation of stock exchanges, the SEBI Board at its meeting held on December 28, 2001 decided that (i) henceforth no broker member shall be an office bearer of a stock exchange and (ii) no SEBI official will be nominated on the Board of any stock exchange. The other administrative and legal modalities for corporatisation and demutualisation of stock exchanges are being worked out by SEBI.

4.5 The Union Budget for 2001-02 laid emphasis on the need to develop the debt market, and spelt out the main measures for this purpose which, inter alia, relate to government bonds trading on stock exchanges using the existing market design of the equity market, setting up of Clearing Corporation of India Ltd. (CCIL), and the Negotiated Dealing System (NDS). Other related initiatives included extension of uniform price auction to the auction of selected dated Central Government Securities, and reintroduction of floating rate Government bonds. Measures have also been announced to move closer to a pure inter-bank call money market by gradually phasing out non-bank participation.