Outlook

4.53 The stock market has been severely affected by developments in the real sector both at home and abroad. The deceleration in industrial growth has significantly reduced resource mobilisation from the primary market, especially through IPOs, which constituted less than six per cent of total resource mobilisation in the current financial year. The fears concerning global slowdown persist, and the long and uncertain time lag for the monetary stimulus to facilitate economic revival in the largest economy of the world may lengthen the shadow of bearish sentiment in share markets all over the world. However, the resilience shown by the markets in overcoming the panic created by the terrorist attack on the WTC in the USA in September this year holds out promise. The measures taken by the Government and regulatory authorities in the wake of the September crisis augur well for facilitating the revival of the stock market.

4.54 The current financial year has witnessed reforms in the capital market regulations with far-reaching implications for the future. The unhealthy links between some market intermediaries and banks in the private and cooperative sectors necessitated extension of rolling settlement to more active securities, and the ban on all deferral products. Rolling settlement has since been extended to all securities. This has considerably reduced the settlement risk by reducing the time gap between trading and settlement. This is expected to go a long way in boosting investor confidence, and will ultimately boost volumes in the market. The spectrum of equity derivatives trading has been widened with the introduction of trading in options on stock index as well as individual stocks, and trading in stock futures. Two of these newly introduced instruments, namely, stock options and stock futures appear to have gained the confidence of investors. Thus the vacuum created in the Indian stock market by the disappearance of deferral products appears to have been filled, and this brightens the future outlook for the share market. Reforms initiated in UTI together with conversion of US 64 scheme into a NAV based scheme will also go a long way in restoring the health of UTI.

4.55 On the lines indicated in the Union Budget for 2001-02, significant steps have been taken to develop the debt market. The launching of the CCIL and NDS would address the need for efficient securities settlement system covering money, government securities and forex markets. The CCIL, in conjunction with the NDS, is expected to facilitate extension of repo market to non-Government securities and enlargement of market participants. The introduction of floating rate bonds on uniform auction basis has also widened the scope for a flexible interest rate regime in tune with the market trends.