

Outlook

4.28 As pick-up in investment activity is expected to continue in 2007-08, resource mobilisation through public issues, private placements and euro issues are slated to remain encouraging in the primary market segment. The recent policy initiatives to address the systemic issues in the primary capital market may increase the reliance on public issues as a major source of funds for Indian corporates besides helping to broaden the investor base.

4.29 With increased globalisation, behaviour of stock prices in the near-term will be largely influenced by a host of domestic as well as international factors. Global economy, after four consecutive years of strong growth, is expected to post an equally impressive growth in 2007. Favourable international economic conditions enhance the growth prospects of developing countries which in turn facilitates sustained flow of cross-border portfolio investment to emerging economies. On the domestic front, there are expectations of higher corporate investment and earnings, GDP growth of over 8 per cent for the fourth year in a row with macroeconomic stability, and Government's commitment to carry forward the economic reforms. These are expected to sustain the interest of not only the domestic investors but also scale-up FII interest in Indian equity and debt papers and to retain India as one of the preferred destinations for portfolio investment. Improved investor awareness and expanding equity-cult

among the small savers appear to augur well for buoyant stock markets. Recent trend of increased investors' preference to participate in equity markets through mutual fund conduit would enhance institutional investment in equity markets. The institutional and regulatory architecture should facilitate this further as this would counterbalance and cushion the impact of the swings in the stock prices.

4.30 While Government securities market is expected to attain further width and breadth as a result of the latest policy initiatives such as introduction of intra-day short sale and 'when issued' market, measures need to be taken to revive the corporate debt market to remove its sluggishness and encourage individual investment as well as institutional investment including those by FIIs.

4.31 The commodity exchanges, which have seen consistent increase in turnovers for the last few years, may remain vibrant in 2007-08 witnessing larger volume and value of commodities traded. Gold and crude oil account for the major part of the total transactions in futures market at present. But, other commodities, particularly agricultural commodities, are expected to gain importance helping their price discovery process and thereby providing an opportunity for farmers, traders and consumers to obtain a reasonable price. The proposed amendments to the Forward Contracts (Regulation Act), 1952 are expected to strengthen the regulatory aspects and ensure orderly conditions in the commodity futures market.