CAPITAL AND MONEY MARKETS

Measures designed to improve the capital market gained further momentum in 1997-98. The Securities and Exchange Board of India (SEBI) took several steps for widening and deepening different segments of the market and for promoting investor protection and market development. The main focus of reforms for the primary market was to safeguard and stimulate investors' interest in capital issues by strengthening norms for and raising standards of disclosure in public issues. The reforms also sought to further streamline and simplify issue procedures with a view to reducing cost of issue. Measures for the secondary market aimed at making the market more transparent, modern and efficient. The safety and integrity of the market were strengthened through the institution of risk management measures which included a comprehensive system of margins, intra-day trading and exposure limits, capital adequacy norms for brokers and setting up of trade/settlement guarantee funds. Besides these, settlement of trades in eight scrips was made compulsory for domestic financial institutions, banks, mutual funds and Foreign Insitutional Investors (FIIs) from January 15, 1998.

2. Despite reforms the market continued to remain dormant. The primary market remained depressed with substantial decline in number of issues and amount raised. The secondary market also witnessed declining prices with subdued market sentiment. Activity in mutual fund schemes increased after the revised regulations, which facilitated filing of more documents and their subsequent clearance by SEBI. However, the net investment by the FIIs showed a mixed trend after a rise in the initial months. The net investment continued to remain positive for the whole year except for November to January, 1997-98. The crisis in the East Asian markets did not have a significant impact on the capital market in India.

3. The primary segment of the capital market witnessed continuous downtrend in 1997-98. Capital raised through new issues during 1997-98 registered a steep decline to Rs. 4570 crore from Rs. 14,276 crore in 1996-97. Resource mobilisation through private placement, however, witnessed a significant increase. Debt instruments comprising bonds and debentures of public sector companies and institutions accounted for bulk of the amount raised through this route. The disintermediation by the primary market thus complemented resource mobilisation by the public sector companies.

4. Though share prices registered significant increases in the first half of 1997-98, bear phase set in in the same period. The Sensex, which rose from 3755 in May, 1997 to 4256 in June and further to 4306 in July, declined to 3876 in August before it rose to 3902 in September, 1997. The Sensex again declined to 3224 in January, 1998 before climbing to 3893 in March, 1998.

5. Many measures were taken to develop a vibrant Government securities market. The focus also shifted from the primary market to the secondary market, as reflected in the setting up of the primary dealer system and the satellite dealer system. Following the discontinuance of 91 day Tap Treasury Bills, 14-day intermediate Treasury Bill was introduced on April 1, 1997 to enable State Governments, foreign Central Banks and other specified bodies to invest their temporary surplus funds. Subsequently a new instrument of 14-day auction Treasury Bill was introduced in June, 1997. The relatively comfortable liquidity situation, which facilitated absorption of Government paper in 996-97, continued in 1997-98. As a result, interest rates declined across all maturities and the yield curve registered further downward movement. This was however reversed in the third quarter of 1997-98 on account of the package of measures announced by the Reserve Bank to protect the Rupee from speculative pressures.