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CAPITAL AND MONEY MARKETS

The revival in resource mobilisation from the primary market has acquired some momentum in 1999-2000. There has also been substantial increase in the inflow of savings into mutual funds in the current financial year. While the amount raised from primary market through public and rights issues increased by 22 percent during 1998-99 over 1997-98, it registered an increase of 46 percent during the first nine months of the current financial year over the corresponding period of the previous financial year. Equity constituted 61 percent of total resource mobilisation from the primary market during April-December 1999-2000 as against a much lower share of 18 percent in the corresponding period of 1998-99. The fact that premium on new issues accounted for the major share in the total equity capital raised during this period reflects the growing confidence of investors in the primary market, at least in selected issues. As in 1998-99, there was a significant amount of private placement of debt securities during this period. During April-December, 1999, net resource mobilisation by mutual funds amounted to Rs.12,194 crore as against a net outflow of Rs. 950 crore during the whole of 1998-99.

4.2 Unlike in 1998-99, movements in share prices in the current financial year reflected a prolonged uptrend. While the Bombay Stock Exchange (BSE) Sensitive Index (Sensex) declined by 14.8 percent from 3893 as at the close of March,1998 to 3316 as at the close of January,1999, it increased by 39.2 per cent from 3740 to 5205 in the corresponding period of the current financial year. The National Stock Exchange (NSE) Index (S&P CNX Nifty) also exhibited almost the same trends in share prices. It declined by 13.5 percent from 1117 to 966 during April-January, 1998-99 while it increased by 43.4 percent from 1078 to 1546 during the corresponding period of 1999-2000. The phenomenal spurt in Information Technology (IT) stocks witnessed in leading markets abroad was mirrored in the Indian market, and contributed significantly to stock market buoyancy. The other two sectors of the so-called golden triangle, namely, pharmaceuticals and fast moving consumer goods also contributed to the uptrend in share prices . The factors in the Union Budget for 1999-2000 like reduction of long-term capital gains tax from 20 percent to 10 percent for resident Indians, and exemption from income tax for all income received in the hands of investors from mutual funds including UTI, coupled with signs of overall improvement in economic performance, appear to have boosted the stock market sentiment in the current financial year. Though the secondary market has not been free from price volatility, the strong margining system and other risk containment measures could ensure the safety of the market and the payment system.

4.3 The Securities and Exchange Board of India (SEBI) continued its regulatory reform to further strengthen investors' protection and modernise the capital market through new measures, systems and instruments. In pursuance of the recommendation made by the Informal Group on Primary Markets to dispense with the requirement to issue shares at fixed par value of Rs.10 and Rs.100, companies have been given freedom to determine the par value of shares issued by them in accordance with Section 13 (4) of the Companies Act,1956. In order to popularise the book-building mechanism for public issues, SEBI modified the existing framework for book-building. A few public issues came to the market taking advantage of the book-building process.

4.4 Measures aimed at strengthening investor interest and confidence in the secondary market include rationalisation and refinement of margining system such as mark to market margin, volatility margin, and incremental carry-forward margin, relaxation of listing requirement in respect of securities in the IT sector by reducing the stipulated minimum offering of securities from 25 percent to 10 percent, the passing by parliament of the Securities Laws (Amendment) Bill, 1999, incorporating derivative instruments in the definition of securities in the Securities Contract (Regulation) Act, 1956, and the introduction of rolling settlement for 10 select scrips with effect from January 10, 2000. In order to secure greater transparency and credibility of appellate bodies, the Securities Laws (Second Amendment) Bill, 1999 providing for transfer of appellate functions under the Security Laws to the Securities Appellate Tribunal (SAT) was also passed by the Parliament in December, 1999.

4.5 The important measures relating to the Government Securities market are the announcement of a calendar for issue of Treasury Bills for the whole of 1999-2000, introduction of price-based auction of dated Government Securities so as to facilitate consolidation of outstanding loans and reintroduction of 182-day Treasury Bills.

4.6 The current financial year also witnessed a most significant reform with far-reaching implications for long-term savings. This relates to the Insurance Regulatory and Development Authority (IRDA) Bill passed by the Parliament in December, 1999 which, inter alia, gives statutory status to the interim Insurance Regulatory Authority, opens up the insurance sector to the private providers, allows foreign equity in domestic insurance companies subject to a maximum of 26 percent of the total paid-up capital, and stipulates minimum paid-up capital of Rs. 100 crore each for companies in life insurance and general insurance.