IJARSCT ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 2, July 2024

Impact of Economical Reformations on Stock Market of India

Rajendra Singh
Assistant Professor, Department of Economics
M. K. Saboo (P.G) College of Commerce, Pilani, Jhunjhunu, Rajasthan, India

Abstract: *The transformation procedure in Indian economy was begrimed with the aim of pick up the pace the pace of financial enlargement and obliteration of poverty. These reforms were essential for increasing the efficiency of supply recruitment, distribution in the real economy and for the overall macroeconomic constancy. The procedure started in July 1991 economic policy when the Government signaled a universal transfer to a more open financial system with greater dependence upon market forces, a larger role for the personal sector including foreign investment, and a restructuring of the responsibility of government. This paper studies the impact of economical reformations on the Indian stock market.*

Keywords: Economical reformations, Indian Stock Market, Sensex, unpredictability

I. INTRODUCTION

The reformation procedure in India economy was initiated with intend of accelerating the swiftness of economical augmentation and eradication of poverty. These reformations were very important for increasing the competence of resource mobilization, allotment in the actual economy and for the in general macroeconomic stability. The procedure is happening in July 1991 when the Government signaled a complete budge to additional open economy with superior confidence upon market armed forces, a superior function for the private sector including overseas investment, and a restructuring of the position of administration.

The reformations procedure eased the familial financial system from the organize government of permit raj. The economical reformations initiated introduced far reaching measures, which changed the functioning and equipment of the economy. These changes were to sublime the position of public sectors, open avenues for looking for overseas investment, relaxing the buy and sell and swap over controls and providing opportunities to trade with the break of the world.The reforms unlocked India's enormous growth potential and unleashed powerful entrepreneurial forces.

Framework of Reformations

India was facing serious shortage in her foreign trade balance and it was increasing. Since 1986-87 till 1991-92 it was increasing in such an express size that by the end of 1991-92 the amount of this discrepancy sense of balance became Rs 12,432 crores. In 1991 and 1992 the government of India had to obtain enormous quantity of loan from the International Monetary Fund as compensatory economic capability. Even by mortgaging 62 tons of gold it had taken small term foreign loan from the Bank of Britain. At the same time, India was also suffering from inflation, the velocity of which was 11% by 1992. The reasons of that inflation were the augment in the procurement cost of the agricultural products for allocation, the amplify in the amount of monetized discrepancy in the budget, increase of introduction cost and decrease in the rate of currency exchange and Administered price like. Thus India was facing trade deficit as well as Fiscal Deficit.

Financial Market Reformations

The budget verbal communication for Budget 1991-92 given by the then Finance Minister Dr. Manmohan Singh in the legislative body on the 24th July 1991 which ushered in the reformations The fundamental challenge of our times is to ensure that wealth creation is not only tempered by equity and justice but is harnessed to the goal of removal of poverty and development for all. While presenting the budget for 1987-88, our former Prime Minister the late Shr. Rajiv Gandhi had assured this House that for a healthy growth of capital markets, for protecting the rights of investors and for

IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 2, July 2024

preventing trading unprofessional conduct the Government would set up a separate Board for the guideline and orderly functioning of the Stock Exchanges and the securities institutions. Although the Board was set up, legislation to give the Board adequate powers was unfortunately not enacted. This shall now be done forthwith and full statutory powers will be given to the Securities and Exchange Board of India for administering the relevant provisions of the Securities Contracts and Regulation Act and the Companies Act. Transferring these powers from the manager of Capital Issues and the Government to an independent body would enable it to successfully regulate, encourage and observe the working of the Stock Exchanges in the Indian country. A complete package of reformations relating to trading on the Stock Exchanges, including a system of national clearing and settlement and setting up of a central depository, is also under vigorous consideration.

Indian Stock Market

The stock market is the barometer of the country‘s financial health. The Sensex data has been taken from the Bombay Stock Exchange Historical Database and SEBI Annual Reports. Stock markets are intertwined in the nation‘s financial system, it is the arteries and veins that supply life blood to the country. Stock markets pressure the trade and industry movement through the construction of liquidity. The savings of the group of people are pumped in to augment the efficiency and good organization in the nation. Stock market exists to make possible the sale and purchase of the securities of companies and the securities or bonds of issued by the government in the course of its borrowing operation. One of the significant functions of the stock exchanges is to look after the interests of the investing public, to facilitate these stock market authorities have made stringent regulations and disciplines.

The market also mobilizes and distributes the nation‘s savings, thus the market also ensures the flow of savings is utilized for the best purpose from the community‘s point of vision. Stock market ensures fair prices and free market by helping professionals and investors by providing update information and reliable information easily accessible to all. The activities of the stock exchange are governed by a recognized system of conduct apart from statutory regulations.

Impact of Economical Reformations in the Bombay Stock Exchange

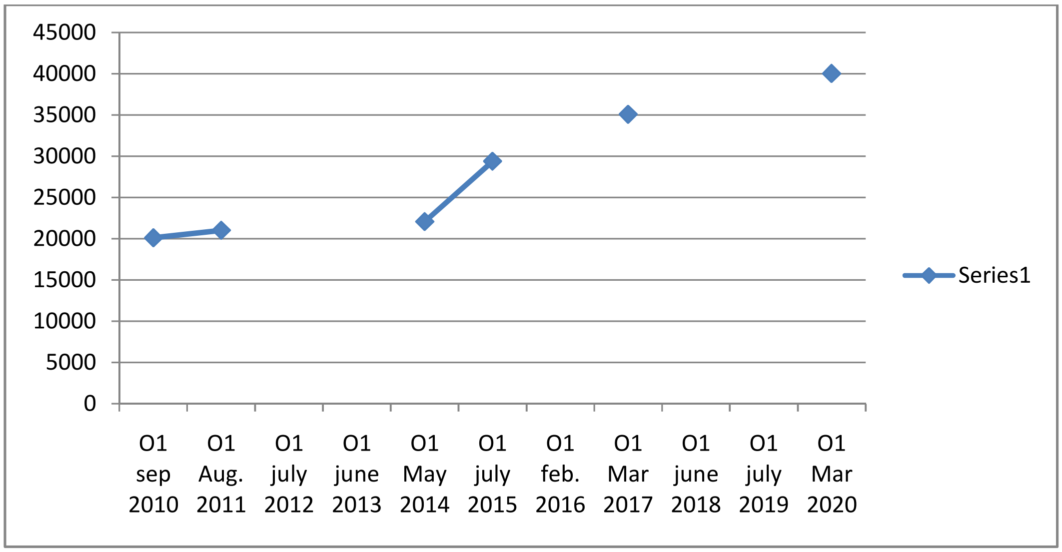
Bombay stock exchange has witnessed the sovereignty of the country and the economical reformations which ushered in after 1991; these chronological transitions have been registered in the Sensex. Some of these important events and trends of BSE SENSEX from 1990 are as follows:

- 25th July 1990 to 11th Oct 1999 Sensex moves from 1008 to 5032 points, balance of Payment crisis and high oil prices force government to embark on IMF dictated reforms.
- Rupee devalued twice in 1992 as then Finance Minister Dr. Manmohan Singh unleashed liberalization to attract foreign capital. The Sensex makes steady gains despite political uncertainty till late 1990s.
- 12th October 1999 to 7th Feb 2005- Sensex moves from 5032 to 10082- jobs driven by
- Demand to fix Y2K bug fuel tech rally till the 2000 dotcom bust. Maruti turns out to be one of the first successful disinvestments.
- 8th Feb. 2005 to 6th July 2007Sensex moves from 10082 to 15046 economy gathers steam and the Sensex soars on FII flows and low inflation.
- 6th Nov. 2010 to 24th March 2014- Sensex moves from 21005 to 22055. The markets remain insipid for over three years amid policy paralysis; stalled projects, US downgrade and a prolonged slowdown in Europe. The Sensex begins upward surge after the BJP names Narendra Modi as its PM candidate for 2014 Lok Sabha Polls.
- 25th March 2014 to 4th March 2015-Sensex moves from 22,055 to30000. The markets scale new highs with all opinion polls predicting a BJP sweep; the Sensex breaches 25000 on the results day with the BJP becoming the first party to win clear majority after three decades.
- 4th March 2015-the Sensex breaches the 30,000 mark with the market capitalization of companies listed on the BSE surge past Rs1 lakhs crores, an all time high so far.
- Since 1990‘s, Asia‘s oldest stock exchange the BSE has changed from an open outcry trading in ring to fully corporatized, computerization, and dematerialization of share clearance house for settlement within three days

IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 2, July 2024

of trade. Now investors can trade from anywhere in the world, thus giving access to majority to trade, the trends and movements are assessed by millions on the online systems. In the last 22years the FII have been allowed to invest in the stocks in India, the FII ownership has gone up from nil to 24%roughly 1% per year. Sensex hits all time high of 30025 intraday breaching first times ever.

24th August 25, 2015 Sensex hit 4 year low, losing 1624.51 points on the bloody Monday triggered by Chinese rout. Losing over Rs 7 lakhs crores in a single day wipe out. The downfall began as soon as the market opened in the morning and BSE 30 share index fell by 1741.35 points in the intra-day before recouping a small portion of the losses. In percentage terms the loss was biggest in six and a half years since 7.25 % plunge on 7th January 2009. Sentiments also took a knock after crude oil prices softened to multi year lows amid deepening concerns about weak Chinese growth and global overall supply. Figure 1: Significant Dates in the Sensex Journey2.



The economic growth rate after the initiation of the reforms has been steady and consistent. In 1991-92 the gross domestic product growth rate was just 1.43, and in 1992-93 it leaped to 5.36. From

2005-2008 and 2009-2011 the growth rate was above 9. The most positive and consistent growth had been in the service sector since the reforms. During 1999-2000, stock markets witnessed generally buoyant conditions. The year began on a somewhat subdued note mainly due to domestic uncertainties. However, in the first week of May 1999 an uptrend set in and share prices ruled firm until September 1999, driven mainly by large FII inflows. Signs of industrial recovery, improved corporate sector performance and sound macroeconomic fundamentals also strengthened the market sentiment. After a brief spell of downtrend in September 1999, the stock markets started looking up again in the first week of October 1999 following the formation of a new Government at the Centre and upgrading of India's international credit ratings from 'stable' to 'positive' by the international credit-rating agencies.

The market remained generally subdued since March 2000 on account of several factors, such as, the slowdown of FII investment, volatility in the foreign exchange market, uncertainty about international oil prices and the bearishness in the international stock markets especially the NASDAQ following the hike in interest rate.

The BSE Sensex touched an 11 month low of 3831.86 on May 23, 2000 during intra-day trading. However, it recovered since then and closed at 4279.86 on July 31, 2000.The volatility in theBSE Sensex as measured by the coefficient of variation increased to 13.2 per cent in 1999-2000 from11.8 per cent in 1998-99. The acceleration of movement in the manufacturing subdivision since 2004-05 has been, facilitated by improvement in investor friendly and sector specific policies. The policy framework was further rationalized and simplified during 2016-17 and 2017-18 so far to entrench the growth momentum, with a focus on upgrading the infrastructural facilities in the country.

The Indian economy for the three consecutive years that is 2015-2018 had growth rate of 19 percent and above. The growth rate in the agricultural production in food grains touched new highs in the 2016-2018. Industrial and service sector growth rate also touched double digit in the same period thus giving a robust growth rate. In the post reform

IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 2, July 2024

period Indian economy has been doing exceptionally well but in 2016-2019 the economy has had kokum growth rate, which is second to china in comparison to the major countries.

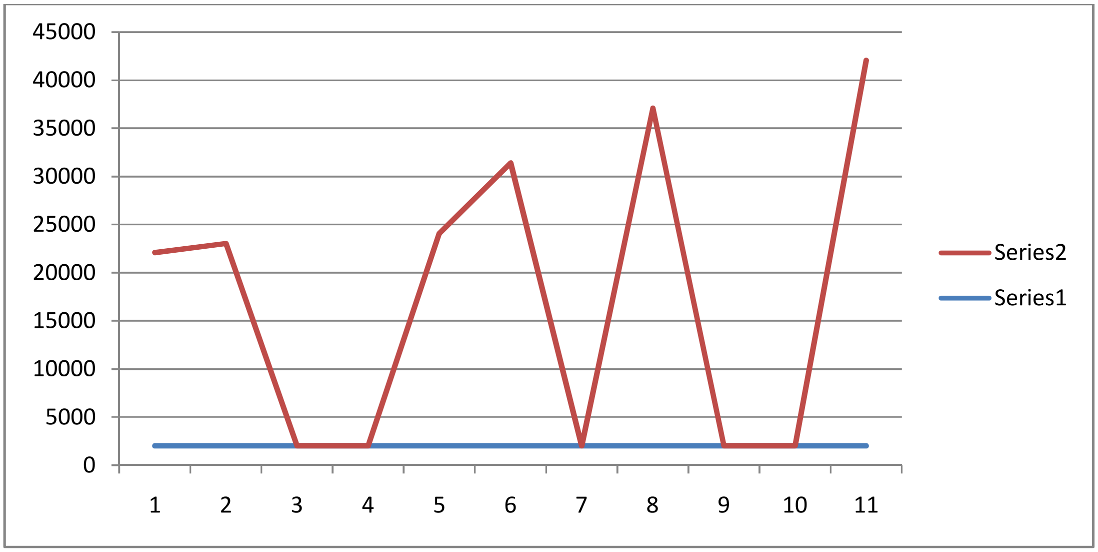


Figure 2: Sensex from 2010 to 2020

The moderation in the growth rate in 2017-18 was seen due to the sudden slackness in the industrial growth rate in the second half of the year owing to number of reasons:; turbulence in the international financial market, household inflation situation in the last quarter, increase in the domestic oil prices, rise in prices of wheat, oilseed and steel and demand plane pressure.

Even then the strong macroeconomic fundamentals of India, attracted large capital flows driven by external commercial borrowings, portfolio flows and foreign direct investment inflow during the global meltdown. During the global meltdown, conditions worsened with the growth in major advanced economies decelerating and inflation hardening. In India, the affect slowly percolated with industrial growth moderating from September 2017, even the service sector showed some signs of moderation because of lower growth in financial and construction subsectors. Inflation hardened because of the rise in international crude oil prices.

As the sustained economic growth was accompanied by decline in the population growth, the average per capita income growth rose from 3.3 percent during the ninth plan 1997-2002 to 6.1 percent during the tenth plan 2012-2017 which was the highest growth during any plan period.Global financial markets witnessed turbulent conditions during the most part of 2017-18 as losses on US subprime mortgage loans escalated into widespread financial stress, raising fears about constancy of banks and other financial institutions. The crisis in the subprime mortgage market gradually deepened and spilled over to markets for other assets. The surge in demand for liquidity coupled with growing concerns about counter party risk led to unprecedented pressure in major interbank markets. Apart from taking action at an individual level central banks in advanced economies also initiated collective measures in a collaborative manner to ease liquidity stress in financial markets, reflecting the globalization of financial markets. Equity markets in advanced economies remained volatile during the most part of 2007, while those in emerging market economies declined sharply from January 2008. The primary market segment of the capital market which had witnessed increased activity till January 2008 turned subdued thereafter due to volatility in the secondary market. Net foreign direct investment inflows increased from US $ 22.0 billion during 2006-07 to US$ 32.3 billion during 2007-08 while net FDI outflow rose from US$ 13.5 billion to US $ 16.8 billion. During 2007-08 portfolio investment including FII's flows remained volatile. Amidst all the global uncertainties growth in Indian economy were robust thus reflecting strong macroeconomic fundamentals.

The global economy started showing signs of stability and slowly gaining momentum by 2009-10. Emerging market economies started rebounding faster than the developed economies but with greater pressure of inflation. Stock prices in India recovered during 2009-2010 in keeping with the recovery in global financial markets. Stock prices witnessed

IJARSCT ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 2, July 2024

an upsurge particularly in the month of October 2009 when global stock markets were at a peak. Stock market recovery was witnessed with the BSE Sensex closing above the 14,000 mark on May 18, 2009 post announcement of election results. Thereafter it witnessed a brief correction to close at 13,432 on July 2013, 2009 before embarking on an upward trajectory. It recorded its highest close at 17,701 on January 06, 2010. BSE Sensex recorded an increase of 80.5 percent by the end of March 2010 over the end of March 2019. Volatility in the BSE Sensex was 43.58 in 2008-2009 and in 2009-2010 was 29.16; which was lower even in the global arena. Globally, the recovery in the advanced economies consolidated and expectations of growth during 2011, particularly in the US, was revised upwards. Though subdued in the advanced economies, inflationary pressures in emerging market economies, which were already strong, intensified due to sharp increases in food, energy and commodity prices. The Indian economy reverted to its pre crisis growth trajectory.

II. CONCLUSION

Economic reforms have had a very positive impact on the Indian stock market. The overall growth was witnessed in GDP from 1.43 in 1991-92 to 9 in 2009-11, thus showing growth in economy after the reforms. After the reforms there has been acceleration in the growth of the capital market, the Sensex has moved from 1027.38 in 1991 to 28,000 in 2016. After the reforms the stock market volatility has stabilized considerably. Volatility that is uncertainty which was considered as the characteristic of Indian stock market has been controlled with the help of number of vigilance reforms undertaken by the SEBI and the in-house surveillance system of the stock exchanges. Therefore the economic reforms in India have a progressive impact on the stock market and the reduced the stock market volatility.

REFERENCES

[1]. Binder, J. J., & Merges, M. J. (2011). Stock Market Volatility and Economic Factors, Review of Quantitative Finance and Accounting, 107, 25–26.
[2]. Beaker, G., C.B. Erg, Harvey, and Visconti, Distributional Characteristics of Emerging Market Returns. Portfolio of Management. Winter, pp. 102-116.
[3]. Belt attic, A. & Moran, C., (2016). Breaks and Persistency: Macroeconomic Causes of Stock Market Volatility, Journal of Econometrics, Elsevier, Vol. 131(1-2), pp. 151-177.
[4]. Engle, R. F., Thyself, E., & Sown, B. (2018), Stock Market Volatility and Macroeconomic Fundamentals No Access, Review of Economics and Statistics, Vol. July, 95, No. 3, pp. 212-217.