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AN ANALYSIS UPON VARIOUS INFLUENCES OF GLOBALIZATION ON THE GROWTH OF STOCK MARKET IN INDIA: A CASE STUDY OF FII

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An Analysis upon Various Influences of Globalization on the Growth of Stock Market in India: A Case Study of FII

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Abstract – Foreign institutional investors have gained a significant role in Indian stock markets. The dawn of 21st century has shown the real dynamism of stock market and the various benchmarking of sensitivity index (Sensex) in terms of its highest peaks and sudden falls. The purpose of this paper is to examine the impact of globalisation on stock market development in India using commonly recognised indicators to test this impact. India implemented significant reforms to foster development in capital markets. These reforms were brought in with the objective of improving market efficiency, transparency, and preventing unfair trade practices. Indicators used in our study are good proxies for the test of market development and deepening. After liberalisation market capitalisation ratio, value traded ratio and turnover ratio increases and volatility ratio has declined. Our results demonstrate overall development in stock markets and operational efficiency in stock markets of India.

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INTRODUCTION

Throughout 1980s, the advancing nations began liberalising their economies. Value streams to improving nations have expanded sharply as of late subsequently (Bhaduri, 2000). There has been a more excellent accentuation on the development of value markets as a part of money related changes. India has additionally emulated this way. With the globalisation, fiscal markets are coming to be more significant each day.

An advanced stock market is recognized vital to national investment development as it gives an extra channel in addition to banks and other money related organizations, for supporting and in this way mobilising household reserve funds. It additionally guarantees upgrades in the benefit of investment through market designation of capital and increments managerial train through the market for corporate control. A study by .World Found for Development Economic Research. has contended that the improving nations may as well liberalise their money related markets so as to lure foreign portfolio value stream. The gigantic measure of fiscal capital accessible in the improved nations through annuity and investment reserves could be pulled in to the advancing nations furnished the last liberalised their markets remotely what's more improved their stock market inside. Capital markets have taken a conspicuous place in the advancing nations. monetary framework throughout the most recent decade. The most imperative measure taken in this respect by advancing nations was the opening of their separate stock markets to universal moguls. This step, taken in the late 1980s or early 1990s, brought about generally abnormal amount of portfolio investment in the rising markets1 by worldwide and local stores. Stock market liberalisation in numerous advancing nations occurred throughout the period 1985 to 1995 when market capitalisation of all developing markets expanded by 1,007 percent contrasted with an increment of 253 percent on account of advanced markets. Therefore, the portion of developing markets on the planet market capitalisation expanded from 4 percent in 1985 to 11 percent in 1995. So also, the exchanging worth in these markets expanded by 2,189 percent contrasted with 564 percent expansion for the advanced markets through the decade.

Accordingly, the rising markets impart in exchanging volume expanded by more than three times, i.e., from 2.7 percent to 8.9 percent in ten years, signalling huge development in these markets (Husain what's more Qayyum, 2006).

Foreign value investment might be useful to advancing nations as a result of its hazard offering attributes and consequences for asset assembly and portion. With money related reconciliation, advancing nations have come to be in an every expanding degree magnetic objectives for universal moguls who are looking for a higher return than what is accessible in the advanced economies. Stock markets of advancing nations have come to be more, in spite of the fact that not completely, mixed with planet fiscal markets, and this expanded mix infers an easier danger balanced cost of capital, which is conceivable by enhancing the danger. The relationship between returns of rising markets (advancing markets) with advanced markets is easier than the return accessible in the advanced economies, the danger . return profile of the portfolio might be enhanced (Agarwal et al., 1999). This has made the prospects of a more productive planet wide distribution of investment funds and investment than was conceivable prior, when domesticated investment in generally nations was obliged by domesticated investment funds. Along these lines, huge budgetary speculators in the improved nations, while broadening their danger, gem improving nations a more alluring end of the line. He emphasisedthat India has either negative or extremely level of correspondence with improved nations. Hence opening up of Indian economy has carried finances from improved nations. In the wake of globalisation of monetary strategies, the Indian business situation is experiencing a tragic conversion. Investment chances have developed, financing choices have enlarged, or more all reliance on capital market has expanded.

The Bombay stock trade, one of the prevailing stock trades of India has the second-biggest number of local cited associations of any stock trade on the planet. Starting in the mid-1980s Indian markets were gradually changed. Until 1990-91, the securities market did not improve in consonance with whatever is left of the economy for different explanations. The exchanging and settlement framework remained unfortunate. Exchanging on all stock trades was through open clamor. The settlement frameworks were study based. Divulgence necessities were lacking. There was no summit administrative power for regulation also assessment of the securities markets. The stock trades were run as broker’s clubs. There was a power of insider exchanging and unreasonable exchange drills. The act of advance exchanging had made unnecessary hypothesis. The huge scale irregularities in securities transactions needed stock market changes to happen. The economy arrived at the finish of this way in 1990-91 with an extreme equalize of installments emergency, undermining a default in India’s foreign obligation installments.

This emergency, and the conditions encroached by the Imf-prompted a time of change union on the prior changes started in the early and mid-1980s. There have been noteworthy updates in the securities market in India throughout the most recent two decades. This is essentially because of the reforms/initiatives taken by the Government and the controllers. The intention behind changes in the securities markets in the 1991 was the expansive objective of giving markets, as opposed to government, a more amazing part in forming asset distribution.

As in numerous different nations around the globe, this constituted deregulation, liberalization of the outside part and halfway privatization of a percentage of the state part endeavors. From various perspectives the changes that began in 1991 have changed the economy through the twin drives of globalization and rivalry. Therefore, the market microstructure has been modernized and refined

STOCK MARKET DEVELOPMENT

The secondary market is an important constituent of the capital market. Secondary market activities have strong influence on the performance of the primary market. This market provides facilities for trading in securities which have already been floated in the primary market. Thus an organised and well regulated secondary market (stock market) provides liquidity to shares, ensures safety and fairdealing in the selling and buying of securities.

The financing decision of a firm is generally affected by the minimisation of the weighted average cost of capital. Upward movement of stock prices influence firms to issue equities at a high premium which reduces the cost of capital for a firm and makes it an ideal financing choice. Another important impact of secondary market development over primary market activities is the increase in investment by firms. As the cost of equity reduces because of issue of equities at high premium, investment projects that had negative NPV before are likely to transform into positive NPV projects. Therefore, the performance of primary market is crucially dependent on the level of activities in the secondary market.

This study considers a wide range of stock market development indicators. The indicators selected are size, liquidity, and volatility.

Market Size

In 1980, the stock market Capitalisation ratio was only 5% of GDP. As a result of liberalization measures initiated in the 1980s, the ratio had risen to 13% by 1990. Market Capitalisation ratio of Indian corporate sector after 1991.

This study shows that stock market size as measured by Market Capitalisation has grown by over50 times throughout the period 1990-91 to 2006-07 while Gdp expanded by more than 7 times over the same period. MCR has consistently expanded up to over 49% in 1995-96 and declined to around 25% in 2002-03 preceding spurting to over 94% in 2006-07. The development in size of Indian Stock Market looks like that of other advancing economies and is in reality exceptionally magnificent.

The enormous ascent in the exercises of the stock market, especially in the 1990s could be traced to a bigger support by people and institutional speculators in the capital market. Since September 1992, the foreign institutional gurus (FII) have been permitted to put resources into the Indian capital market.

The critical effect of liberalization is clear in the degree of market promotion to GDP which was beneath 10% until three years before liberalization, expanded to 21% in the year of liberalization, stayed around 40% up to 2003-04 preceding expanding to 94% in 2006-07. Toward the conclusion of year 2008 market underwriting has crossed the National GDP by more than 100%.

The normal MCR over the three sub-periods additionally indicates the steady build in the measure of market capitalisation in categorical terms and likewise as far as proportion. The mean worth of the proportion throughout the study period is 44.07%. It has expanded from 34.4 % in the first sub-period to 37.09% in second period and bounced off by 70% to 63.98%. This shows that the extent of Indian corporate area expanded ceaselessly at a speedier rate.

STOCK MARKET LIQUIDITY

The Turnover of Indian stock market as a percentage of GDP is given in the following Table.

Year	Turnover (Rs. Millions)	GDP (Rs. Millions)	Value Traded Ratio (% GDP)	Value Traded (% Change)
1990-91	3601	51503	6.99	_
1991-92	7178	58409	12.29	99.32
1992-93	4570	66987	6.82	-36.34
1993-94	8454	78007	10.84	85.00
1994-95	6775	91216	7.43	-19.86
1995-96	5006	106981	4.68	-26.11
1996-97	12428	124763	9.96	148.26
1997-98	20764	138873	14.95	67.07
1998-99	31200	160111	19.49	50.26
1999-00	68503	177109	38.68	119.56
2000-01	100003	190228	52.57	45.98
2001-02	30729	207766	14.79	-69.27
2002-03	31407	224473	13.99	2.21
2003-04	50262	251992	19.95	60.03
2004-05	51872	285533	18.17	3.20
2005-06	81607	324955	25.11	57.33
2006-07	95619	376029	25.43	17.17
Sub-Periods	**Value Traded Ratio**			
1990-07	17.77			
1990-97	8.43			
1997-02	28.10			
2002-07	20.53			

Table : Value Traded Ratio of Indian Stock Market

The above Table shows that worth exchanged as a rate of GDP expanded from in the ballpark of 7 percent of GDP in 1990-91 to about 25 percent of GDP in 2006-07. In outright terms Turnover in the market builds more than 25 times from 1991 to 2007. Throughout 2000-2001 there were most extreme exercises in the market and the quality exchanged proportion was 52.57%.

The normal quality of Value Traded Ratio throughout the study period is 17.77%. At first it was exceptionally flat after liberalization throughout the first stage at 8.43% which shows next to no exchanging the market as contrasted with economy estimate. Throughout second sub-period when the second stage of changes began, the market has hinted at recovery and it has expanded to 28.10%. In the final period, again this proportion descends to 20.53% on a much higher GDP throughout which time the turnover expanded by more than 90% beating numerous rising markets.

To decidedly comprehend the liquidity picture, the turnover proportion likewise has been examined. The turnover degree is demarcated as the proportion of the quality of aggregate imparts exchanged and market promotion. It measures the movement of the stock market in respect to its size. Numerous experts utilize the turnover as measure of transaction costs. High turnover degree suggests level transaction and subsequently high proficiency.

The turnover degree diminished from 51.44 percent in 1990-91 to something like 27 percent in 2006-07. The mean quality of the proportion over the entire period is 46.16. Throughout first time of investigation, this proportion was around 30% just then after that it expanded to78.9 % in the resulting period and again it declined to 36.25%. The excuse for why could be security market trick due to which the suppositions of the gurus influenced conflictingly.

After 1995 market liquidity began climbing once more. The Sebi has taken different administrative strategies and drives to direct the market. The liquidity again gets influenced adversely in year 2001-02 in light of the fact that market was hit by an additional set of irregularities in the stock market.

Turnover of the stock market as contrast with size of the market is at its greatest in the year 2000-01. This is the year when esteem exchanged degree is additionally at most abnormal amount. Due to these qualities, the proportion of esteem exchanged and turnover is most noteworthy in the second sub-period. Accordingly liquidity of the stock market on an normal has not expanded. Examination of the worth exchanged proportion and turnover proportion uncovers that the Indian stock market is less fluid in connection to the development of the economy than development of the market size. Second time of study shows the most astounding measure of exchanging connection to size of the economy and in connection to development of the market size.

STOCK MARKET VOLATILITY

In this segment, the volatility of the Indian stock market throughout 1991-2007 has been broke down. It is examined if there has been an expansion in volatility in the Indian stock market because of the methodology of monetary liberalization. Stock market liberalization has pulled in another assembly of gurus viz. the FIIs. An expansion in the amount of traders in the market may then decrease the stock cost fluctuation. Stock market opening may additionally concurrently trigger an expansion in the change of informative data sets accessible to the FIIs in this way inferring a conceivability of an increment in the stock return volatility. The accompanying table shows the Volatility Ratio of the Indian corporate part.

Examination of stock list volatility uncovers that the period around 1991 is the most volatile period in the stock market because of the Balance of Payment emergency and the resulting start of budgetary changes in India. Throughout 1991-92 the worth of volatility proportion is as high as 8.05 although Mean standard deviation of the study period is 3.63. In the beginning sub-time of liberalisation i.e., 1991-97 the proportion is at 3.97 due to the advertisement of first stage of changes. It demonstrates an unwavering succumb to second and third sub-periods to 3.80 and 2.96 separately. There has been a checked fall of around 25% between the volatility levels over the first and third sub-times of the study. The second most noteworthy volatile year was 1999-00 when the degree was 4.82. Throughout the study period the volatility of the Indian stock market has not demonstrated any critical example on a year-to-year premise despite the fact that it has ceaselessly diminished over the three sub periods.

As respects the level of volatility, mean volatility in the post liberalization period shows a transitory build emulated by a reduction on a yearly premise in cycles in spite of the fact that the change as a rule is minor. This was because of the increment in the FII movement in the Indian stock market throughout the period.

Investigation additionally demonstrates that stock market cycles in India have not escalated after monetary liberalization. A summed up lessening in flimsiness in the post change period in India has been watched.

CONCLUSION

This study has found significant growth in the economy after liberalisation. All indicators, show improvement in stock market activities in the post liberalization period. Market capitalisation ratio, value traded ratio, and turnover ratio have increased. These indicators together with decline in volatility are an evidence of stock market growth in India.

Infrastructure growth in the stock market like the overview of screen based on-line trading system, setting up of National Securities Clearing Corporation (NSCC) in 1996, the setting up of depositories in India and the overview of trading in financial derivatives in 1999 may have contributed to the development in the stock markets.

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