Role of Capital Market Instruments towards Development of Indian Economy: A Study with Special Reference to Bombay Stock Exchange (BSE)

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Abstract
The basic reason for this study is to investigate how capital market instruments contribute towards the development of the Indian economy by making the relationship between the money market and capital market instruments. Indian capital market plays a vital role in the monetary development of the country. Stock market professionals have given numerous opinions concerning functions of the stock market such as improving fluid position in the economy, gathering and assembling capital, observing supervisors and applying business control, giving hazard pooling and allocation, and supervision including speculation levels. This paper focuses on, how shareholders, brokers, intermediaries and speculators involve themselves in trading on stock exchange activities. The existing review of the literature indicates that there is a considerable contribution from stock exchanges towards the economic development of the country. The segregation of the market as primary and secondary enhances the capital market instruments. The different capital market instruments are depicted in the present study. It is also focused on, how significantly the capital market instruments try to enhance the development of a country's economy. The impact of foreign investors and companies towards strengthening of financial assets of the country is also highlighted in the present study

Keywords: Stock Market, Capital Market, Money Market, Instrument of Capital Market, Bombay Stock Exchange, Economic Activities.

Introduction

The development of the economy is contributed by many sectors in the country. The financial activities of India have a wide variety of strengths and opportunities. The Indian financial sector is divided into two activities that is, the Indian Capital Market and Indian Money Market. The money market comprises products including bills of exchange, promissory notes, Treasury bills (T-bills), financing bills, participation notes, and certificates of deposit. Capital market is the market for trading long-term securities, the primary purpose is to direct the flow of savings of people and businesses into long-term investments.

The investors use to invest the money for long-term activities, which leads to more returns on their investments. The capital market is demarcated as an organized appliance meant for the operational and smooth relocation of money. It is the market for long-term funds and securities. The platform for arranging goods and services is marketing as such, the arrangements of doing the trading activities is capital market. By focusing on the capital market, there is no physical existence of products and services. For instance, the Bombay Stock Exchange is located in Bombay, but the trading in stocks takes place through the online network throughout the country by using a D-Mat account. Capital market is the market for trading long-term securities, the primary purpose is to direct the flow of savings of people and businesses into long-term investments. All institutional borrowings and lending arrangements deal with capital market activities based on long-term and medium-term funds transactions. The capital market is the hallmark of a capitalist society. Its mission is to provide the corporate sector with efficient access to resources. Compared to the banking model, the Capital market has an efficient allocation of resources.

The majority of money transactions takes place in these kinds of stock exchange activities. Stock exchanges are one of the important platforms for shareholders and stakeholders. Companies also undergo the concept of stock activities when it comes to the formation. Stock exchanges provide an opportunity for companies while in formation. It makes the linkage between the company and investors/shareholders for raising the funds or capital.

Key Capital Market Instruments in India

1. Stocks (Equities)
2. Bonds (Government and Corporate)
3. Debentures
4. Mutual Funds
5. Exchange-traded funds (ETFs)
6. Derivatives (Futures, Forward, Option and Swaps)

Role of Capital Market Instruments

The capital market offers support to the coordination of capitalism of the country. The Securities and Exchange Board of India (SEBI) and the Reserve Bank of India act as the primary regulatory authorities for the Indian securities market, aiming to safeguard investors and enhance the microstructure of capital markets in India.

The following are some roles of the capital market in enhancing the Indian economy:

- The importance of the capital market is apparent in developing countries like India, particularly in capital generation and savings allocation. This market features many sanctuaries that enable savings accumulation across multiple demographic groups. The associated characteristics of acceptable returns and liquidity in stock exchanges serve as evident motivators for individuals to invest in securities. This expedites capital realization within the country.
- Enhancing Long-Term Financing: A stock market allows firms to obtain eternal funding. Investors cannot deploy their assets indefinitely, whereas corporations utilize capital permanently. The stock market enables transactions by permitting investors to buy or sell their assets, but the company's permanent capital stays intact.
- Advancement of Industrial Development: The stock exchange functions as a crucial marketplace for the distribution of resources to the progressive sector of the economy.
- Accessible and Consistent Market: The stock market offers a centralized platform where buyers and sellers can seamlessly engage in the transaction of securities. The liquidity of securities investments is enhanced by their marketability relative to other assets.

- Technical Support: A notable shortcoming faced by entrepreneurs in developing countries is technical assistance. Financial intermediaries in the capital market are essential as they offer advisory services for feasibility report creation, evaluate growth potential, and instruct entrepreneurs in project management.

Effectiveness of Capital Market Instruments towards the Bombay Stock Exchange (BSE)

The effectiveness of capital market instruments towards the BSE is significant as,

- It act as a facilitator of fund-raising for the companies through IPOs, FPOs and right shares.
- CMI provide liquidity in BSE for investors through trading of shares, bonds and derivatives
- It helps to discover the price in the financial market.
- BSE is indicated as Sensex which reflects India's economic performance.
- BSE ensure compliance with SEBI regulations, maintaining market integrity.
- The activities of BSE will be done under the circumstances of Electronic trading, clearing and settlement to enhance efficiency.

Table No. 1 Capital Market - Primary and Secondary

(Amount in ₹ crore)

Item	2022-23		2023-24 (P)	
	Number	Amount	Number	Amount
1	2	3	4	5
I. PRIMARY MARKET				
A. Publicand Rights Issues				
1. Private Sector (a+b)	271	54,486.7	383	97,284.2
a) Financial	45	13,631.5	61	29,133.1
b) Non-financial	226	40,855.2	322	68,151.1
2. Public Sector (a+b+c)	1	20,557.2	2	4,974.7
a) Public Sector Undertakings	1	20,557.2	2	4,974.7
b) Government Companies	…	…	…	…
c) Banks/Financial Institutions	…	…	…	…
3. Total (1+2,i+ii,a+b)	272	75,043.9	385	102,258.8
Instrument Type				
(i) Equity	238	65,823.3	340	83,092.5
(ii) Debt	34	9,220.6	45	19,166.3
Issuer Type				
(a) IPOs	164	54,772.4	272	67,955.3
(b) Listed	108	20,271.5	113	34,303.5
B. EuroIssues (ADRsandGDRs)	…	…	…	…
C. PrivatePlacement				
1. PrivateSector (a+b)	1,385	452,300.7	1276	537,366.2
a) Financial	1,123	356,541.1	954	343,467.5
b) Non-financial	262	95,759.6	322	193,898.7
2. PublicSector (a+b)	227	352,038.3	215	438,207.4
a) Financial	156	284,200.4	191	406,652.5
b) Non-financial	71	67,837.9	24	31,555.0

3. Total (1+2,i+ii)	1,612	804,338.9	1,491	975,573.6
(i) Equity^	11	8,212.3	61	68,971.5
(ii) Debt	1,601	796,126.6	1,430	906,602.2
D. Qualified Institutional Placement	11	8,212.3	61	68,971.5
E. MutualFundsMobilisation(Net)#				
1. Private Sector		15,983.0		308,898.0
2. Public Sector		60,242.5		45,803.3
II. SECONDARYMARKET				
BSE				
Sensex: End-Period	58,991.5		73,651.4	
Period Average	58,307.5		66,822.7	
Price Earnings Ratio@	22.4		25.2	
Market Capitalisation to GDP ratio (%)*	95.8		131.7	
Turnover Cash Segment		1,028,864.8		1,629,038.4
Turnover Equity Derivatives Segment		34,315,313.1		802,835,384.3
NSE				
Nifty 50: End-Period	17,359.8		22,326.9	
Period Average	17,335.9		19,978.3	
Price Earnings Ratio@	20.4		22.9	
Market Capitalisation to GDP ratio (%)*	95.1		130.7	
Turnover Cash Segment		13,305,073.4		20,103,439.4
Turnover Equity Derivatives Segment		3,822,326,468.1		7,992,767,152.4

Source: SEBI, NSE, BSE, various merchant bankers and RBI staff estimates.

Table No.1 gives information about the primary and secondary capital market activities. Compared to 2022-23 there is an increase of 136% in the primary market in the year 2023-24. The secondary market is also increasing by 230% in the year 2023-24 compared to 2022-23.

Review of Literature

Debjit Chakraborty (1997) reviewed the relationship between economic indicators and stock market behaviors. The article examines the stock market's response to various economic alterations in the country. Variations in the stock market index were seen as a result of alterations in the money supply, affected by inflation, the cash-deposit ratio, and the budget deficit. Political stability positively impacts the market index, whereas political instability negatively affects the stock market index.

Wagner and Berger (2004) argue that the collapse of the capital market is due to the financial crises in the market which has affected reductions of profits and gains for the investors and other stakeholders in capital market activities. The growth can be possible only by allowing foreign companies to participate in the present capital market activities. It has been observed that the country's financial growth is not possible only by domestic investors or companies, whereas foreign investors and companies also play a significant role in the development of the country's capital market activities.

Juhi Ahuja (2012) emphasized the structure of the Indian Capital Market. A transformation was observed in the Indian capital market over the years as a result of several reforms. The advent of Private Company Debt markets has diminished dependence on the banking system for corporate finance. The Indian capital market showed apathy towards the current global financial crisis originating from the United States subprime mortgage sector, which negatively impacted markets globally.

Radhamani (2018) the researcher focused on how long-term debt or equity-backed securities are bought and sold through the capital market. The capital market is a channel which saves the wealth of the investor through the proper investment analysis. However, the Capital market is a long-term financial activity which promotes the savers to create and enhance their financial wealth. They also identified that, as the capital market is long-term productive usage-oriented activities which are highly preferable for the financial assets of the companies, government and other long-term financial institutions.

Kavitha (2018) noted that contemporary capital market operations occur via a virtual system, facilitating a comprehensive analysis of diverse organizations' financial assets, and enabling investors, savers, and lenders to protect their interests through online transactions.

Vijay Chaitra (2023) The key strengths of the Indian capital market include a fully automated trading system on all stock exchanges, a wide range of products, and an integrated platform for trading in both cash and derivatives. The capital market constitutes a vital segment of the Indian economy, along with the financial institutions that finance the economic development of the country.

Subramanyam Naidu (2024) highlighted that India's financial sector saw a substantial transformation in the 1990s. The elimination of lending rate barriers, unrestricted valuation of equity issues, the entry of private sector utility investors including foreign institutional investors, the initial opening of the banking sector to private entities, and the allowance for Indian companies to directly access foreign capital markets are significant modifications that have transformed the Indian economy. The newly established idea of sovereignty has heightened animosity within the Indian business sector.

Research Gap

The study is undertaken to know the importance of Capital Market instruments in the Indian context. After analyzing all the literature reviews, it is understood that many studies have only focused on new trends in the capital market by comparing it to money market instruments rather than identifying the role of the capital market towards the development of the Indian economy. Many researchers have undergone the process of highlighting the importance of the Capital market, but there is also a vital part in identifying the contribution of the Capital Market towards the enhancement of the economy of the country. There is a research gap specially linking instruments of the capital market and contribution towards the development of the economy of the country by considering the Bombay Stock Exchange as one of the parameters to study. Hence the present study fills the research gap by focusing on capital market instrument which creates and enhance the economy of the country with its different options and instruments.

Statement of the Problem

The effectiveness of Capital Market Instruments plays a vital role in the context of the Indian economy. The known facts are not enough to understand the concept of capital markets. There is a wider scope of these instruments which are making direct and indirect effects to primary and secondary markets. Due to volatility of market conditions, there is improper development of capital market in the country. Fluctuation of capital market activities makes various stake holders take part in necessary investment decisions and few stakeholders are withdrawing their investments due to the fluctuation of capital and money market. These outline drawbacks must be overtaken with proper guidance from SEBI and MCA.

Need for the Study

The present capital market activities are playing a vital role towards development of the country's economy. There are various promotional activities regarding investment in various sources of funds, however, it is also observed that capital market instruments are likely to be one of the important investment avenues in monetary activities. The above-mentioned key capital market instruments such as Stocks, Bonds, Debentures, Mutual Funds, Exchange Traded Funds, Derivatives and Alternative Investments Funds are significantly contributing to the country's economic development, growth and financial stability. Capital market instruments play a vital role in improving the investment decisions of the investor. It also helps to enhance corporate funding strategies for the companies. It develops effective risk management practices by selecting the best instrument to avoid financial risks. These instruments also help to promote financial inclusion and stability. The study of capital market instruments is crucial for anyone involved in finance, investment or economics as it helps understand the complexities of the capital markets and make informed decisions.

Objectives of the Study

1. To study the role of Capital Market Instruments in the country
2. To identify the contribution of Capital Market Instruments towards the country's economy
3. To analyze the different key factors of Capital Market Instruments
4. To review the implication of Capital Market instruments on the Bombay Stock Exchange
5. To promote the effective utilization of Capital Market Instruments in the country.

Scope of the Study

The study will focus on the variety of instruments which are playing an important role in improving the economy of the country. There is no restriction on how the capital market instruments are observed, utilized and attaining the personal goals of an organization. The different stakeholders use these instruments according to their own choices and preferences. There is no compulsion on that, the capital market instruments are only to be utilized for wealth creation of the individual investors and company perhaps it also highlights how various stakeholders get benefits from the various capital market instruments which ultimately impact the progress of economic development of the country.

Methodology

The study is primarily analytical and descriptive. It has attempted to evaluate the role of Capital Market Instruments which affects the Bombay Stock Exchange issues based on the secondary data. There is no primary data collection due to the limited period. The study enhances the comparison of Primary and Secondary markets by giving the importance for the year 2022-23 and 2023-24.

The majority of the work has been undertaken from the various reports and articles which ultimately gives importance to the secondary data collection.

Suggestions

By enriching the Capital Market Instruments, the different stakeholders can optimally utilize this instrument for their individual growth which makesa significant impact on the economy of the country by achieving profit and creating wealth. As the capital market instruments depend on the market situational factors there are some unpredictable chances of getting losses also hidden in these instruments. Hence there is a need for proper knowledge in the field of capital market instruments. To analyze the performance of the Capital Market, the Bombay Stock Exchange has been used as one of the substantial components of a thorough understanding of Capital Market Instruments. Ultimately, the role of the Capital market depends on how these instruments are used in an optimized manner in the country. Hence it is suggested to understand in detail all the long-term instruments that have less risk and high returns concepts.

Conclusion

After the 1991 monetary reforms, the growth of the Indian economy showed cumulative trends. Capital markets are also fluctuating rapidly. However, due to the collective level of competition, India needs to conclude with deeper and more extensive ranging developments which will bring the supervisory environment and the structure of the economy to an equal which can handle the challenges of progression. A practical approach is essential for both regulators and facility providers. Regulation must not generate hurdles for financial production and innovation and service providers. As India is dignified to develop as a super economic command it must address innumerable challenges associated with the development of capital on precedence. It has the scope of enlargement in sectors like Pharmaceuticals, the merchandising industry, Automobiles, Edification, etc. Foreign Direct Investment should be permitted throughout numerous sectors to entice external investors, so ensuring comprehensive economic advancement.

The various instruments of capital are to be thoroughly understood which makes the investor, savers and various stakeholders to proper utilization of these instruments. This results towards the development of the economy in the country. There is a wider scope of capital market activities in the country. Through the involvement of foreign investors, companies and foreign financial institutions which can trigger the enhancement of capital market activities. FDI and FII is also play a vital role in the promotion of financial assets in the country.

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