

Role of Stock Exchanges in the Economic Development of India – A Special Reference to BSE and NSE

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Abstract

Stock exchanges play an important role in every economy especially in raising capital for businesses, mobilizing saving for investment purposes, and creating investment opportunities for small investors, capital rising for development projects by government...etc. A stock exchange is a reliable barometer to measure the economic condition of a country. The stock market offers attractive opportunities of investment in various securities. These attractive opportunities encourage people to save more and invest in securities of corporate sector rather than investing in unproductive assets such as gold, silver, etc. This process of disinvestments and reinvestment helps to invest in most productive investment proposal and this leads to capital formation and economic growth. This paper deals with and highlights the role of two major stock exchanges, Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) in India in the economic development of India.

Keywords: stock exchanges, BSE, NSE, economic development

Introduction

A stock exchange is defined under section 2(3) of the Securities Contracts (Regulation) Act, 1956, 'as anybody of individuals whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities'. Indian stock markets have a history of more than 125 years. Innovation in technology changed the face of stock markets and thereby the economic development of a nation. The stock markets in India are far ahead of other nations in the world and in par with developed nations. Stock market contributes a major share in the economic growth of a nation.

In India the two major stock exchanges are Bombay Stock Exchange and National Stock Exchange. BSE is the oldest stock exchange established in 1875. The 11th largest stock exchange with more than 5500 companies listed occupies an overall market capitalization of \$1.43 Trillion as of March, 2016. NSE was established in 1992. World's 12th largest stock exchanges have a total market capitalization of more than US\$1.41 trillion, making it as of March 2016.

Importance

The financial system of a country occupies an important place in the economic development of a nation. It promotes savings by providing a wide variety of financial assets to the public. Savings so far collected from the society are pooled together and allocated to the different sectors of the economy. If the allocation and distribution is socially equitable, then it means that the financial system achieves the twin objectives of growth and social justice. The secondary market plays a very important role in the development of financial system of any economy and thereby promoting the wealth of nations. The study is relevant in the sense that BSE and NSE, the two major stock exchanges in India, are proudly visualizing a growing market trend reflecting the growth of financial sector of India. The turnover and market capitalization of both BSE and NSE reflect the growing market trend.

Objectives

- To analyse the role of BSE in the economic development of India
- To analyse the role of NSE in the economic development of India

Methodology

The present study is based on secondary data. The secondary data were collected from various sources like RBI bulletin, BSE annual reports, and NSE annual reports, Central Statistical Organisation (CSO) reports, various books, journals, periodicals, articles & newspapers, etc. In order to analyse the collected data, statistical tools like tables, percentages, correlation and regression are used.

Data Analysis

$$GDP_{FC} = \beta_0 + \beta_1 T_B + \beta_2 MC_B + u_i$$

$$GDP_{FC} = \alpha_0 + \alpha_1 T_N + \alpha_2 MC_N + u_j$$

Table 1 - Analysis of role played by BSE and NSE

| <i>Regression statistics</i> | BSE | NSE |
|------------------------------|-------------|-------------|
| Multiple R | 0.957808158 | 0.840494757 |
| R square | 0.917396467 | 0.706431437 |
| Adjusted R square | 0.884355054 | 0.589004012 |
| Observations | 8 | 8 |

Findings

Present study takes into account GDP_{FC} as the proxy variable for measuring economic development. The data collected in between the periods 2006-07 to 2013-14 used for the analysis. To analyse the role played by stock exchanges in the economic development of India, we took two repressors i.e., turnover and market capitalization of both BSE and NSE. The statistical result reveals that there is high positive correlation between GDP_{FC} , turnover and market capitalization of both BSE and NSE. About 91.73 % of variations in GDP are explained by turnover and market capitalization of BSE. Moreover, R^2 adjusted with degrees of freedom indicates that 88.43 % of variations are explained by the repressors. About 70.64 % of variations in GDP are explained by turnover and market capitalization of NSE. R^2 adjusted with degrees of freedom indicates that 58.90 % of variations are explained by the repressors. 41.1 % variations are explained by other variables. Compared with NSE, BSE played a vital role in the economic development of India.

Table 2. Economic development and stock market performance

| Year | GDP at factor cost (in crores) | Turnover of BSE (in crores) | Market Capitalisation of BSE(in crores) | Turnover of NSE(in crores) | Market capitalisation of NSE(in crores) |
|---------|--------------------------------|-----------------------------|---|----------------------------|---|
| 2006-07 | 3953276 | 78027.52 | 3545041 | 167953.69 | 3367350 |
| 2007-08 | 4582086 | 110991.1 | 5138015.26 | 253012.49 | 4858122 |
| 2008-09 | 5303567 | 69789.44 | 3086076 | 202798.5 | 2896194 |
| 2009-10 | 6108903 | 99778.73 | 6165620.14 | 286245.54 | 6009173 |
| 2010-11 | 7248860 | 72456.58 | 6839083.61 | 255711.89 | 6702616 |
| 2011-12 | 8391691 | 62717.17 | 6214911.83 | 272482.14 | 6096518 |
| 2012-13 | 9388876 | 39744.92 | 6387886.87 | 212598.02 | 6239035 |
| 2013-14 | 10472807 | 62124.5 | 7415296.09 | 276740.12 | 7277720 |

Source: BSE annual reports and NSE annual reports, Central Statistical Organisation (CSO) - 31.10.2014

List of Abbreviations

BSE: Bombay Stock Exchanges

NSE: National Stock Exchanges

GDP_{FC} : Gross Domestic Product at factor cost

T_B : Turnover of BSE

T_N : Turnover of NSE

MC_B : Market Capitalisation of BSE

MC_N : Market Capitalisation of NSE

Conclusion

From the analysis, it is clear that the market capitalization and turnover of both BSE and NSE reflects the true economic indicator of economic development. The economic development of India positively depends upon the growth of the stock market. The leading stock exchanges in India have an important role in promoting the GDP of the nation. More than 90 percentage influence of BSE on GDP clearly reveals that the turnover and market capitalization are true indicator of economic development. Likewise, NSE is not an exception. NSE also played a very remarkable role in the economic development of the nation. About 70 percentage variations in GDP are explained by the growth indicators of NSE.

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