KOLKATA
businessline.
TUESDAY - JANUARY 30 - 2024

'Financial markets robust; can support a growing economy'

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The Finance Ministry, on Monday, asserted that India's financial markets, which have grown from strength to strength over the last decade, are now well placed to support the investment needs of a growing economy, which is projected to hit $5-trillion mark in next three years and $7-trillion mark by 2030.

Both equity markets, which are now the fourth-largest in the world by market capitalisation, and the bond markets, are expected to play a key role in financing the country's large capital investment needs, said the latest Department of Economic Affairs (DEA) report on 'The Indian Economy: A Review' released on Monday.

The resilience of both the equity and debt markets — which continue to attract many participants — has its roots in a continued reform agenda that prioritises the liberalisation of financial markets, balancing it with regulatory policies that safeguard financial market stability, it added.

MARKET CAP

Highlighting the stellar performance of the equity markets in recent years, the report noted that India's market capitalisation to GDP ratio has improved significantly over the last nine years from 79 per cent at the end of 2014 to 104 per cent at the end of 2022, far higher than that of other emerging market economies such as China and Brazil.

"The performance of Indian equity markets has enabled India to secure the second-largest weightage in the MSCI Emerging Markets Index," the report added.

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The report also said that the accelerated activity in the equity markets led to companies significantly increasing the number of IPO issuances, particularly in the small and medium enterprises segment. Since FY15, 1,050 companies cumulatively have gone public and raised capital worth ₹3.9-lakh crore, compared to 441 companies mobilising ₹1.5-lakh crore in the preceding nine-year period.

FPI INTEREST

The DEA report said that there is now evidence of robust investor interest in India's bond markets. This is more after the decision by JP Morgan to include India's sovereign bonds in its widely tracked Emerging Markets Bond Index. "Higher Participation [by foreign portfolio investors] will lead to inflows, which will further help reduce the government borrowing," it added.

The slew of measures taken by the RBI on the sovereign bond front and by SEBI on the corporate bonds side are expected to yield dividends in the coming decade, said the DEA report. FPIs have bought more than $4 billion worth of Indian government bonds since index inclusion announcement.

JP Morgan had, in September 2023, announced the inclusion of Indian government bonds in its emerging market index starting June 2024, marking the first global index to do so after more than a decade of talks between Indian authorities and global indices.

This inclusion in JP Morgan's EM index is estimated to bring in inflows worth $25-40 billion, said analysts.