India Market Report

2011-12

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Sources:

Published data as is currently available including from the following:

- GOI data
- SEBI
- NSE
- RBI

Disclaimer:

- We do not certify accuracy in the data provided in this note. Data provided is as per best efforts and as available at the time of making this note.

ANMI

ANMI was formed in the year 1994. It is a pan India body comprising of the trading members of NSE, BSE and MCX-SX with the ultimate aim of attaining the status of an SRO, and be also recognised as a think-tank catalyzing India's growth in the financial arena & thus paving way for India as an important "International Financial Hub" of the world. ANMI provides a healthy platform to its members to regularly interact with each other, aids them to identify and understand the problems/difficulties/issues being faced by them/investors/financial fraternity from time to time. It provides an opportunity to its members to voice their opinion on various procedures, policies, rules & regulations pertaining to operations of broking business.

INDIAN ECONOMY GROWTH – A FOREWORD

India’s economic growth and development during the period post independence in 1947 and till date has been gradual but steady. The period saw the initiated ‘Socialistic’ approach with focus on Agriculture and a gradual shift towards industrialization. The approach of various Governments which administered this large democracy was one of caution in triggering the liberalization process having regard to the needs of large population with different purchasing capacities and in particular the weaker sections of the society.

Various developmental measures that have been implemented by the Government over the period has now made ‘India’ as a nation with huge potentials for Investment and Development opportunities for developed countries which are now sadly stagnating for various reasons.

Indian capabilities in the areas of IT, Science and Technology, Medicine, Atomic energy to mention a few are now globally well known. An organized Financial & Capital Market, Banking Systems, Regulatory Process, Judicial Systems and Strong Infra Structure facilities in the urban areas provide further incentives for Investment and growth.

GLOBAL ECONOMIC SCENARIO

Steady growth and development in the Information & Technology and its application in every field including business and commercial activities have transformed the global economy into a seamless market. The economies of different countries have now become inter dependent with growth triggering growth elsewhere and at the same time slowdown in any major National economy impacting the other countries.

It is this seamless inter connection between economies of different countries resulted in the US sub-prime crisis that hit the USA in 2008 impacting negatively the global economy which continues to remain subdued with no clear signs of recovery. The current state of economies of USA, Japan, China, the BRIC countries, India including is a matter of concern.

INDIAN ECONOMY

The overall GDP growth for the year 2011-12 was 6.5% as against 8.4% growth that was recorded for the year 2010-11. The GDP growth for the year 2012-13 is now estimated at around 6.5%. It would be an immense challenge to achieve the growth in the context of weak global economy, subdued growth environment in the country and the focus needed in the area of energy security, food security, poverty reduction, enhancing per capita income of the weaker sections, health care and education, supply of drinking water.

There has been a progressive change in the regulatory processes with emphasis on good governance in all segments. Several statutory enactments (eg. Company Law) are being reviewed for required modification to facilitate faster growth and development. The government has also taken steps to remove demographic inequalities by ushering in social sector economic development programs like MGNREGA for development of the rural economy and the Golden Quadrilateral project which aims to connect by road N/E/W/S.

As per the latest Revised Estimates (RE) of Central Statistics Office (CSO), the growth in real Gross Domestic Product (GDP) at factor cost at constant (2004-05) prices was estimated at 6.5 per cent in 2011-12 as compared to 8.4 per cent in 2010-11 (Quick Estimate). At disaggregated level, this (RE 2011-12) comprises growth of 2.8 per cent in agriculture and allied activities, 3.4 per cent in industry and 8.9 per cent in services as compared to a growth of 7.0 per cent, 7.2 per cent and 9.3 per cent respectively during 2010-11.The growth in GDP is placed at 5.3 per cent in the fourth quarter of 2011-12; agriculture grew by 1.7 per cent; industry by 1.9 per cent and services by 7.9 per cent.

No wonder India is now seen globally as a fast growing economy with potential to emerge as the most developed and strongest economy in the South East Asia Region in the coming years. Many of the Global MNC's, Industrialists and other major investors are chalking out plans and strategies to enter India to be part of the growth process.

BUSINESS GROWTH FOR LAST 3 YEARS FOR NSE, BSE, MCX-SX IN (CM, FO, CD)

The business growth in India has increased far off from earlier projections in a calendar year .However NSE has strengthened its position in Capital Market , derivatives as compared to that of BSE,MCX-SX which requires improving investor participation .

	NSE			BSE			MCX SX
YEARS	**CM**	**FO**	**CD**	**CM**	**FO**	**CD**	**CD**
2009-10	4138024	17663665	1782610	1378810	235	15030	1944655
2010-11	3577412	29248221	3449790	1105025	155	18970	4194020
2011-2012	2810893	31349732	4674990	667500	808475	9770	3732445
APR-OCT 2012	1512366	18247800	2890220	312070	3884370	5530	1858850

RECENT GOI ECONOMIC POLICY ANNOUNCEMENTS

- Permitting Foreign Direct Investments in Multi Brand Retail
- Withdrawal of subsidies on some Petroleum Products (LPG / Diesel)
- Further steps to reduce subsidies and thereby reduce fiscal deficit.
- Divestment of GOI equity holdings in some PSUs
- Close monitoring of Government Expenditure
- The expert committee on General Anti Avoidance Rules (GAAR) recommendation for postponement of the tax provision by three years and abolition of capital gains tax on transfer of securities.
- Incentives for retail equity investors.
- Cash transfer of subsidy benefits directly to eligible beneficiaries (Amount involved: Approx ` 3 trillions – 3.5% of GDP)
- Rationalisation of National Plan and Non-Plan Expenditure.
- 5 year Road Map for Fiscal consolidation.
- Increase in Foreign Investment Limit to 100% from existing 74% in Telecom Sector.
- Insurance Amendment Bill recommending 49% FDI limit against present limit of 26%
- Pension Regulatory Bill providing inter alia 49% limit on FDI Investment in the Sector.
- Companies Act (Amendment) Bill providing for major amendments in line with changed Corporate Governance Environment and Global best practices.
- Forward Contracts Regulation Act (Amendment) Bill providing inter alia a greater autonomy to Forward Markets Commission.
- Expeditious implementation of Major Infra Projects across the Country.

ANTICIPATED IMPACTS OF REFORMS ON THE INDIAN ECONOMY

- Building positive sentiment.
- Boost for Commercial, Trading and Industrial activities.
- Building Investor Confidence, both Domestic and Foreign.
- Improve sentiments in the Capital Market including Investors.
- Return of Retail Investors in the Capital Market.
- Increase in Revenue Growth.
- Increased Employment generation.
- Meeting a GDP Growth target of about 6% for 2012-13.

FOREIGN CURRENCY ASSETS

Exchange rate: The rupee depreciated by 0.1 per cent against US Dollar, 0.9 per cent against Pound Sterling, 0.6 per cent against Japanese Yen and 0.9 per cent against Euro in the month of August 2012 over July 2012.

External assistance and debt service payments: Gross external aid in April-August 2012 is ` 8290.5 crore as compared to ` 9087.8 crore during the corresponding period of the previous year. Net disbursement stood at ` 613.73 crore in April-August 2012 as compared to ` 3129.6 crore in April-August 2011 while net transfers were (-) `1142.2 crore in April-August 2012 as compared to `1702.5 crore in April-August 2011.

INFLATION

Wholesale Price Index (WPI 2004-05=100): The WPI inflation for the month of August 2012 is reported at 7.55 per cent, as against 6.87 per cent in last month and 9.78 per cent in the corresponding month last year. The inflation has gone up mainly on account of revision in electricity tariff, higher inflation in cereals, pulses, oilseeds, and sugar. Inflation has moderated for vegetables, milk, fish, poultry and chicken in the current month.

Inflation based on Consumer Price Indices (CPIs): The all India CPI inflation (combined) has again touched double digit and stood at 10.03 per cent for August 2012 as against 9.86 per cent in July 2012. The inflation remains elevated for cereals, pulses, oils & fats, egg, meat and fish and sugar in the current month. Inflation based on CPI-IW has moderated to 9.84 per cent in July 2012 from 10.05 per cent in June 2012. Food inflation stood at 11.27 per cent, 7.35 per cent and 7.50 per cent for CPI-IW, CPI-AL and CPI-RL respectively in July 2012.

MACROECONOMIC OUTLOOK (SOURCE: RBI)

In an uncertain global economic environment, the interplay between growth slowdown, high inflation, wide current account, fiscal gaps and falling investment has weakened the economy. Surveys of business expectations confirm that confidence levels are low. On the other hand, inflation expectations remain sticky. The economy has reached a critical point, at which economic activity can spin up or down depending on how the policy uncertainty is addressed and supporting measures put in place. Leading indicators, especially credit growth and PMIs, suggest that a recovery is still possible with appropriate policy action.

GROWTH PROSPECTS FOR 2012-13 STAY WEAK

- The Indian economy slowed significantly during 2011-12, with growth decelerating to 6.5 per cent. The growth prospects for 2012-13 remain weak due to a combination of global and domestic macro-economic factors. Global growth is turning weaker than anticipated. Along with the sovereign debt overhang and financial market uncertainties, it is impacting global trade.

- The IMF in its July update of the World Economic Outlook has made significant downward revisions in its current year growth estimates for India, UK, Brazil and China. As fiscal adjustments take shape in advanced economies (AEs), shrinking deficits could keep AEs growth slow for an extended period. This could result in a significant drag on growth in India.

- Recent indications suggest that global trade flows have ebbed again after some pick-up in Q4 of 2011-12. This trend could persist because of tight credit conditions, the adverse impact of deleveraging on trade finance and, more importantly, growth slowdown in emerging and developing economies (EDEs), including China. If global trade loses steam, it can have ramifications for recovery in India.

- Growth in India has decelerated faster than envisaged. Some slowdown was inevitable as growth sacrifice was needed to combat the high inflation of the past two years. However, the lack of a quick policy response to address structural bottlenecks and encourage investment has exacerbated the slowdown. In view of the growth moderation, the Reserve Bank in its Monetary Policy Statement 2012-13 on April 17, 2012 frontloaded the policy rate reduction with a repo rate cut of 50 basis points on the premise that the process of fiscal consolidation critical for inflation management, would get under way along with other supply-side initiatives. However, the absence of movement on fiscal correction, along with other persistent risks to inflation during 2012-13, limit the space for monetary easing and the Reserve Bank decided to hold the policy rate in its Mid Quarter Policy Review on June 18, 2012.

- Taking into account the increased risks, the growth outlook in 2012-13 may turn out to be lower than anticipated. However, a recovery, even if modest, still appears possible if appropriate policy correctives are quickly put in place. Credit expansion in Q1 of 2012-13 has picked-up and PMIs for manufacturing and services remain in expansion mode. This suggests that while growth has decelerated, a sharp dip can still be averted.

INFLATION RISKS REMAIN SIGNIFICANT

- Headline inflation has moderated from near double-digit levels and remained in the range of 7-8 per cent for the past seven months. The extent of moderation, in spite of the negative output gap, has been constrained by a number of off-setting factors such as rupee depreciation and sustained pressures from input costs and wages. Typically, episodes of high inflation have been marked by inflation persisting for 2-3 years and have required sustained efforts to lower inflation expectations and inflation.

- The near-term outlook on inflation continues to be marked by a number of upside risks, despite the significant slowdown in growth. Both persistent headline WPI inflation and retail inflation, even as the core inflation remains moderate, indicate continued supply side pressures on overall inflation. These are unlikely to be mitigated in the near term. The progress of the monsoon so far has been unsatisfactory. Some price pressures could emerge in coarse cereals, pulses and edible oils. The short-term trajectory of food inflation could shift upwards impacted by the adverse monsoon, large increases in the Minimum Support Prices (MSP) and structural pressures on protein inflation that can further be reinforced if feed costs increase due to poor rainfall. The impact of the rupee depreciation against the US dollar will limit the favourable impact from a fall in global crude oil and metal prices. The suppressed inflation of the past is likely to show up in electricity, coal and fuels during 2012-13. On the whole, in spite of core inflation pressures moderating and some deceleration in wage inflation, upside risks to inflation projections for 2012-13 remain significant.

BUSINESS EXPECTATIONS INDICES SUGGEST SUBDUED BUSINESS CONFIDENCE

- Various surveys portray weakening optimism about business prospects. The NCAER Business Confidence Index, which registered an improvement in business environment during April 2012, slid back during July 2012. Private sector firms appear apprehensive about the investment climate and their financial positions, even though capacity utilisation levels remain relatively high.

- The latest Dun & Bradstreet Business Optimism Index for July–September 2012, conducted in June 2012 amid renewed domestic and global economic pressures, indicates increased pessimism, with a q-o-q decline in volume of sales, net profits, new orders, inventory and employee levels. Weak demand conditions are observed across sectors, especially in the intermediate and capital goods sectors. The demand for finished goods also shows a significant moderation, pointing to a further slowdown in capital expenditure by firms.

- The CII business confidence index, however, registered moderate recovery, with almost three-fourth of the respondents expecting a 7 or higher per cent growth in 2012-13, with the primary concern being stagnancy in reforms. The survey indicates optimism about overall sales, new orders and pre-tax profits in Q1 of 2012-13, as results indicate a corresponding rise in the last quarter as well.

- Across surveys, higher input costs seem to be the major deterrent to business confidence (Table VII.1). The seasonally adjusted HSBC Markit Purchasing Managers' Indices (PMI) for both manufacturing and services (June 2012) suggest improved business conditions and rising output. Despite the increasing input costs, higher employment levels and rising output prices point to some optimism about growth revival. Business expectations remain positive.

INDUSTRIAL OUTLOOK SURVEY POINTS TO MODERATION IN BOTH DEMAND AND FINANCIAL CONDITIONS

- The Reserve Bank's 58th round of the Industrial Outlook Survey (http://www.rbi.org.in/IOS58), conducted during Q1 of 2012-13 with a sample of 1,404 manufacturing companies, showed a deterioration in business sentiments both in the assessment quarter Q1 and the expectations quarter Q2 of 2012-13

- The Business Expectation Index (BEI), a composite indicator based on several business parameters, shows moderation for assessment (Q1 of 2012-13) as well as expectation (Q2 of 2012-13) quarters (Chart VII.1). The fall in assessment index has been much sharper than the expectation index, indicating that the perceived plateauing was not realised. However, these indices remained in the positive growth zone (i.e., above 100, which is the threshold separating contraction from expansion).

- Net response of major demand side parameters, viz., production, order books, capacity utilisation, exports and imports for Q1of 2012-13, remained positive, albeit, lower when compared on a y-o-y as well as a q-o-q basis. The outlook response shows similar results.

- The results also point to lower optimism in the overall financial situation through H1 of 2012-13. The net response for availability of finance was positive, although marginally lower than the previous quarter. 'Cost of external finance' is perceived to rise further, but by a lower percentage of respondents. The majority still expect the cost of raw material to rise further in Q2 of 2012-13. While a higher percentage of respondents (on a net basis) assessed that the profit margin declined over the last quarter, the outlook for Q2 of 2012-13 remains more or less balanced.

CONSUMER CONFIDENCE SURVEY INDICATES STATIC FUTURE EXPECTATIONS

The Reserve Bank's 9th round of the Consumer Confidence Survey (http://www.rbi.org.in/CCS9), conducted in June 2012, indicates that although the majority of respondents perceive current household circumstances to have improved, there has been a rise in the proportion of respondents reporting otherwise. This led to a fall in consumer confidence for the current period. However, the future expectations of households remained almost constant at the level observed in the last round.

EXTERNAL AGENCIES SEE MODERATION IN GROWTH AHEAD

The revised GDP growth estimate for 2011-12 at 6.5 per cent came in sharply lower than the conservative estimates by external agencies (7.0-7.6 per cent). Stuttering global growth coupled with domestic concerns on multiple fronts, viz., weak IIP growth momentum, persistent inflation, and high fiscal and current account deficits, without much being done on the reform front, have led to further downward revisions in the growth outlook for 2012-13 by 0.2-0.8 percentage points. At this juncture, however, the consensus forecasts on growth seem to be placed lower than the 7.3 per cent projected by the Reserve Bank in its Monetary Policy Statement 2012-13.

Agencies' Projections for 2012-13				
Agency	**Latest Projection**		**Earlier Projection**	
	GDP Growth (Per cent)	**Month**	**GDP Growth (Per cent)**	**Month**
1	**2**	**3**	**4**	**5**
Economic Advisory Council to the PM	7.6	Feb-12	-	-
Finance Ministry	7.6 (+/0.25)	Feb-12	-	-
IMF* (calendar year)	6.1	July-12	6.9	Apr-12
World Bank	6.9	Jun-12	7.5	Mar-12
OECD*	7.3	May-12	7.5	Nov-11
ADB	6.5	Jul-12	7.0	Apr-12
NCAER	7.3	Apr-12	-	-
* GDP at market rates.				

INFLATION EXPECTATIONS STAY STICKY

The Inflation Expectations Survey of Households (IESH) (http://www.rbi.org.in/IESH28), conducted among 4,000 households across 12 cities and 7 occupational categories in June 2012, indicates that the median inflation perception for the current quarter (i.e., April- June 2012) as well as the median inflation expectations going forward remained at the same level. However, the mean perception and expectation of inflation moved up marginally compared with the previous round. The percentage of respondents expecting higher inflation in next quarter/year has also increased compared with the last round.

INFLATION AND MACRO RISKS TO CONDITION GROWTH-ENABLING POLICY ACTIONS

Domestic growth declined to its lowest in 29 quarters during Q4 of 2011-12. Early indications for Q1 of 2012-13 suggest that growth is likely to remain subdued. While growth risks are significant, policy choices have been complicated as inflation remains above the comfort level. Further, inflation risks have increased and continue to constitute significant risk to growth sustainability, thus making it imperative to not allow monetary conditions to aggravate these risks. Also, the wide CAD and high fiscal deficit continue to limit the monetary space and pose major challenges for macroeconomic policy. Though adjustments in the exchange rate could contribute to bridging the current account deficit, excessive volatility, particularly the risks of a downward spiral in the rupee, needs monitoring. Going forward, improved liquidity and monetary conditions suggest the possibility of a slow recovery in industrial growth.

Additional rounds of accommodative monetary policy across the globe, if sustained through 2012-13, can reverse the trend of falling commodity prices at some stage. Global food inflation is also likely in the face of widespread drought in US and elsewhere. Besides, monsoon shortfall also weigh heavily on the inflation outlook in India. Rising input costs have fed into output prices, though further pass-through may be limited. On the other hand, corporates are likely to raise prices to protect themselves against margin pressures in sectors where competitive structures are not in place and mark-ups can be protected.

The economy is now at a critical juncture where revival can be supported by restoring confidence through policy actions to encourage investment. Removing constraints on FDI and improving the investment climate by moving quickly to address bottlenecks in infrastructure space are important. Also, speeding up fiscal consolidation by putting in place an investment stimulus through large capital spending by the government but offsetting it by curtailing revenue spending by revamping the subsidy schemes could go a long way in reviving growth. Reviving infrastructure investment while addressing increased risks to lending to this sector is critical in this context.

In short, decisive policy action backed by credible commitment to a long-term strategy for correcting macroeconomic imbalances and stimulating investment is crucial at this stage to revive confidence as well as provide space for monetary policy to help sustain growth while keeping inflation under control.

MARKET SEGMENTS

The securities market has two interdependent and inseparable segments, namely, the new issues (primary) market and the stock (secondary) market. The primary market provides the channel for the creation and sale of new securities, while the secondary market deals in the securities that were issued previously. The securities issued in the primary market are issued by public limited companies or by government agencies. The resources in this kind of market are mobilized either through a public issue or through a private placement route.

The secondary market enables participants who hold securities to adjust their holdings in response to changes in their assessment of risks and returns. Once new securities are issued in the primary market, they are traded in the stock (secondary) market. The secondary market operates through two mediums, namely, the over-the-counter (OTC) market and the exchange-traded market. The OTC markets are informal markets where trades are negotiated. Most of the trades in government securities take place in the OTC market. All the spot trades where securities are traded for immediate delivery and payment occur in the OTC market. The other option is to trade using the infrastructure provided by the stock exchanges. The exchanges in India follow a systematic settlement period. All the trades taking place over a trading cycle (day = T) are settled together after a certain time (T + 2 day).

INTERNATIONAL SCENARIO

Global integration—the widening and intensifying of links—between high-income and developing countries has accelerated over the years. Over the past few years, the financial markets have become increasingly global. The Indian market has gained from foreign inflows through the investment of Foreign Institutional Investors (FIIs). Following the implementation of reforms in the securities industry in the past few years, Indian stock markets have stood out in the world ranking. As may be seen from Table 1-2, India posted a turnover ratio of 75.6 percent, which was comparable to that of the other developed markets. As per Standard and Poor's Fact Book 2011, India ranked 7th in terms of market capitalization (11th in 2009), 10th in terms of total value traded in stock exchanges, and 22nd in terms of turnover ratio, as of December 2010.

The stock markets worldwide have grown in size as well as depth over the years. As can be observed from Table 1-2, the turnover of all the markets taken together have reduced from US $ 80.42 trillion in 2009 to US $ 63.98 trillion in 2010. Significantly, the US alone accounted for about 47.6 percent of the worldwide turnover in 2010. Despite having a large number of companies listed on its exchanges, India accounted for a meagre 1.65 percent of the total world turnover in 2010. The market capitalization of all the listed companies taken together across all the markets stood at US $ 54.54

trillion in 2010 (US $ 48.71 trillion in 2009). The share of the US in worldwide market capitalization increased from 30.95 percent at the end of 2009 to 31.42 percent at the end of 2010, while the Indian listed companies accounted for 2.96 percent of the total market capitalization at the end of 2010. The stock market capitalization for some developed and emerging countries is shown in Chart 1-1.

According to the *World Development Indicators 2010, World Bank*, there has been an increase in the market capitalization as a percentage of Gross Domestic Product (GDP) in some of the major groups of countries, as is evident from Table 1-3. The increase, however, has not been uniform across the countries. The market capitalization as a percentage of GDP was the highest at 89.9 percent for the high-income countries at the end of 2009 and was the lowest for the low- and middle-income countries (at 72.6 percent). The market capitalization as a percentage of GDP in India stood at 85.6 percent at the end of 2009. The turnover ratio, which is a measure of liquidity, was 128.5 percent for the high-income countries and 100.8 percent for the low-income countries. The total number of listed companies stood at 29,574 for the high-income countries, 16,778 for the middle-income countries, and 17,497 for the low-income countries at the end of 2010.

HOUSEHOLDS

According to the RBI data, investments in fixed income instruments accounted for 87.1 percent of the household financial savings during 2010–2011, which had increased in comparison to 85.6 percent in 2009–2010.

In the fiscal year 2010–2011, the household sector invested 47.3 percent of financial savings in deposits, 33.3 percent in insurance / provident funds, 6.5 percent in small savings, and -0.4 percent in the securities market including government securities, units of mutual funds, and other securities.

PRIMARY MARKET

An aggregate of ` 8,561,863 million (US $ 191,755 million) was raised by the government and the corporate sector in 2010–2011, compared to ` 10,083,446 million (US $ 223,382 million) in 2009–2010 (a decrease of 15.09 percent). Private placement accounted for 90.57 percent of the domestic total resource mobilization by the corporate sector. Resource mobilization through Euro Issues dropped significantly by 40.87 percent to `94,410 million (US $ 2,114 million) in 2010–2011.

SECONDARY MARKET

Corporate Securities

The exchanges in the country offer screen-based trading system. There were 10,203 trading members registered with SEBI at the end of March 2011. The market capitalization has grown over the period, indicating that more companies are using the trading platform of the stock exchange. The market capitalization across India was around ` 68,430,493 million (US $ 1,532,598 million) at the end of March 2011. Market capitalization ratio is defined as the market capitalization of stocks divided by the GDP. It is used as a measure that denotes the importance of equity markets relative to the GDP. It is of economic significance since the market is positively correlated with the ability to mobilize capital and diversify risk. The all-India market capitalization ratio decreased to 86.89 percent in 2010–2011 from 94.2 percent in 2009–2010.

The trading volumes on the stock exchanges have been witnessing phenomenal growth over the past few years. Trading volume, which peaked at ` 55,168,330 million (US $ 1,222,161 million) in 2009–2010, posted a fall of 15.12 percent to ` 46,824,370 million (US $ 1,048,698 million) in 2010–2011. The trading volumes had picked up from 2002–2003 onwards. It stood at ` 9,689,098 million (US $ 203,981 million) in 2002–2003, and witnessed a year-on-year increase of 67.29 percent in 2003–2004, standing at ` 16,209,326 million (US $ 373,573 million). The upsurge continued for the next few years, and in 2006–2007, the turnover showed an increase of 21.40 percent, reaching ` 29,014,715 million (US $ 665,628 million) from ` 23,901,030 million (US $ 535,777 million) in 2005–2006.

Government Securities

The trading in non-repo government securities on NSE has been declining considerably since 2004–2005. The aggregate trading volumes in central and state government dated securities on SGL declined from ` 4,217,022 million (US $ 93,421 million) in 2009–2010 to ` 4,035,492 million (US $ 90,381 million) in 2010–2011.

DERIVATIVES MARKET

The number of instruments available in derivatives has increased. To begin with, SEBI only approved trading in index futures contracts based on the Nifty 50 Index and the BSE 30 (SENSEX) Index. This was followed by approval for trading in options based on these indices and options on individual securities, as well as futures on interest rates derivative instruments. On the NSE, there are futures and options based on the benchmark index Nifty 50, CNX IT Index, Bank Nifty Index, and Nifty Midcap 50, as well as futures and options on 226 single stocks (as on October 30, 2011). On the BSE, futures and options are based on the BSE-30 (SENSEX), BSE TECK, BSE BANKEX, BSE Oil & Gas, and BSE SENSEX mini, as well as futures and options on 99 single stocks (as on October 30, 2011).

The mini derivative (futures and options) contracts on the Nifty 50 and the SENSEX were introduced for trading on January 1, 2008. The total exchange traded derivatives witnessed a value of ` 292,483,750 million (US $ 6,550,588 million) in 2010–2011 as against ` 176,638,990 million (US $ 3,921,825 million) in the preceding year. In 2010–2011, NSE proved itself the market leader in derivatives, contributing 100 percent of the total turnover in India. In the Indian scenario as well as in the global market, NSE has created a niche for itself in terms of derivatives trading in various instruments.

NSE, which has been a pioneer in the introduction of innovative and investor-friendly products, has introduced rupee denominated future contracts on global indices such as S&P 500 and Dow Jones Industrial Average (DJIA), and option contracts on S&P 500 with effect from August 29, 2011. This is the first time in the world that future contracts on the S&P 500 index were introduced and listed on an exchange outside of their home country (the US).

REGULATORS

The absence of conditions for perfect competition in the securities market makes the role of the regulator extremely important. The regulator ensures that the market participants behave in a certain manner so that the securities markets continue to be a major source of finance for the corporate sector and the government while protecting the interests of investors.

In India, the responsibility for regulating the securities market is shared by the Department of Economic Affairs (DEA), the Ministry of Company Affairs (MCA), the Reserve Bank of India (RBI), and SEBI. The orders of SEBI under the securities laws are appealable before a Securities Appellate Tribunal (SAT).

Most of the powers under the Securities Contracts (Regulation) Act, 1956 (SCRA) can be exercised by the DEA while a few others can be exercised by SEBI. The powers of the DEA under the SCRA are also concurrently exercised by SEBI. The powers in respect of the contracts for sale and purchase of securities, gold-related securities, money market securities and securities derived from these securities, and ready forward contracts in debt securities are exercised concurrently by the RBI.

REGULATORY FRAMEWORK / LEGISLATIONS

The SEBI Act, 1992: The SEBI Act, 1992 was enacted to empower SEBI with statutory powers for (a) protecting the interests of investors in securities, (b) promoting the development of the securities market, and (c) regulating the securities market. SEBI has full autonomy and the authority to regulate and develop an orderly securities market.

Securities Contracts (Regulation) Act, 1956: This Act provides for the direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges, and aims to prevent undesirable transactions in securities.

Depositories Act, 1996: The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy, and security by (a) making securities of public limited companies freely transferable, subject to certain exceptions; (b) dematerializing the securities in the depository mode; and (c) providing for the maintenance of ownership records in a book entry form.

Companies Act, 1956: This essentially regulates the formation, management and functioning of different types of companies**.** It also deals with the issue, allotment, and transfer of securities, as well as various aspects relating to company management. It provides the standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and the management's perception of risk factors.

Prevention of Money Laundering Act, 2002: The primary objective of this Act is to prevent money laundering, and to allow the confiscation of property derived from or involved in money laundering. According to the definition of "money laundering," anyone who acquires, owns, possess, or transfers any proceeds of crime, or knowingly enters into any transaction that is related to the proceeds of crime either directly or indirectly, or conceals or aids in the concealment of the proceeds or gains of crime within India or outside India commits the offence of money laundering. Besides prescribing the punishment for this offence, the Act provides other measures for the prevention of money laundering.

RECENT INITIATIVES IN CAPITAL MARKETS

- Development of Corporate Bond Market
- Dedicated trading platforms for small and medium scale enterprises
- Reducing transaction cost in Securities markets
- QFI access to Indian Equity Markets, corporate bonds and mutual fund debt schemes
- Liberalization in ECBs: Permitting External Commercial Borrowings (ECB) to part finance Rupee debt of existing power projects
- Financial Stability and Development Council (FSDC)
- Financial Action Task Force (FATF)
- Permitting two-way fungibility in Indian Depository Receipts
- Reduction in the rate of long-term capital gains tax in the case of other non-resident investors, including Private Equity from 20% to 10% on the same lines as applicable to FIIs
- Providing the levy of Securities Transaction Tax (STT) at the rate of 0.2 per cent on sale of unlisted securities in the course of IPO
- Tax exemption to “Angel” investors investing in in start-up companies
- Extending the lower rate of withholding tax to funds raised through long term infrastructure bonds in addition to borrowing under a loan agreement
- Removal of Restriction on Venture Capital Funds to invest only in nine specified sectors
- Financial Sector Legislative Reforms Commission (FSLRC)
- Rajiv Gandhi Equity Saving Scheme
- Mandatory offer of electronic voting facility
- Income tax exemption to the Beneficial Owners Protection Fund (BOPF) set up by the Depositories

Some Data Tables (2011-12)

Foreign Exchange Reserves										
Item	**As on August 31, 2012**		**Variation over**							
			Week		**End-March 2012**		**End-December 2012**		**Year**	
	` Bn.	**US$ Mn.**	**` Bn.**	**US$ Mn.**	**` Bn.**	**US$ Mn.**	**` Bn.**	**US$ Mn.**	**` Bn.**	**US$ Mn.**
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Total Reserves	**16,184.6**	**290,461.6**	**103.4**	**282.3**	**1,123.3**	**-3,935.9**	**379.9**	**-6,227.1**	**1,457.3**	**-30,322.7**
(a) Foreign Currency Assets +	14,354.6	257,620.1	73.6	-252.4*	1,049.5	-2,448.6	348.1	-5,313.2	1,278.9	-27,254.7
(b) Gold $	1,462.1	26,239.4	27.0	524.7	79.6	-783.7	44.0	-380.9	158.9	-2,079.3
(c) SDR’s	244.8	4,392.7	1.9	6.7	16.2	-76.6	8.9	-36.3	32.9	-223.2

@										
(d) Reserve Position in the IMF**	123.1	2,209.4	0.9	3.3	-22.0	-627.0	-21.1	-496.7	-13.4	-765.5

+ Excludes ` 44.0 billion / US$ 790 million invested in foreign currency denominated bonds issued by IIFC (UK).

***** Foreign currency assets expressed in US dollar terms include the effect of appreciation/depreciation of non-US currencies (such as Euro, Sterling, and Yen) held in reserves. For details, please refer to the Current Statistics section of the RBI Bulletin.

****** Reserve Position in the International Monetary Fund (IMF), i.e., Reserve Tranche Position (RTP) which was shown as a memo item from May 23, 2003 to March 26, 2004 has been included in the reserves from the week ended April 2, 2004 in keeping with the international best practice.

@ Includes SDR 3,082.5 million (equivalent to US$ 4,883 million) allocated under general allocation and SDR 214.6 million (equivalent to US $ 340 million) allocated under special allocation by IMF done on August 28, 2009 and September 9, 2009, respectively.

$ Includes ` 314.6 billion (USD 6,699 million) reflecting the purchase of 200 metric tonnes of gold from IMF on November 3, 2009.

As Per International best Practices: (Data on FDI have been revised since 2000-01 with expended coverage to approach International Best Practices)

(Amount USD million)

Financial Year (April-March)	**FOREIGN DIRECT INVESTMENT (FDI)**						Investment by FII's Foreign Institutional Investors Fund (net)
	EQUITY		Reinvested earnings+	Other capital +	FDI FLOWS INTO INDIA		
	FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies#			Total FDI Flows	%age growth over previous year (in USD terms)	
2007-08	24,573	2,291	7,679	292	34,835	(+) 53%	20,328
2008-09	31,364	702	9,032	776	41,847	(+) 20%	(-) 15,017
2009-10 (P) (+)	25,606	1,540	8,668	1,931	37,745	(-) 10%	29,048
2010-11 (P) (+)	19,430	874	11,939	658	32,901	(-) 13%	29,422
2011-12 (P)	34,833	1,021	8,205	2,494	46,553	(+) 34%	16,813
2012-13 (P) (Up to June, 2012)	4,428	213	2,283	774	7,698	-	(-) 1,706
CUMULATIVE TOTAL (from April, 2000 to June, 2012)	177,569	8,974	64,584	9,786	260,913	-	132,095

Source: ***(i) RBI‟s Bulletin August, 2012 dt. 10.08.2012 (Table No. 44 – FOREIGN INVESTMENT INFLOWS).***

(ii) '#' Figures for equity capital of unincorporated bodies for 2010-11 are estimates.

(iii) (P) All figures are provisional

(iv) "+" Data in respect of „Re-invested earnings‟ & „Other capital‟ for the years 2009- 10, 2010-11 & 2012-13 are estimated as average of previous two years.

(v) Inflows under the acquisition of shares in March, August & October, 2011, include net FDI on account of transfer of participating interest from Reliance Industries Ltd. to BP Exploration (Alpha).

(vi) RBI had included Swap of Shares of US$ 3.1 billion under equity components during December 2006.

(vii) Monthly data on components of FDI as per expended coverage are not available. These data, therefore, are not comparable with FDI data for previous years.

(viii) Figures updated by RBI up to June, 2012.

Trends in FII Investment (Equity)				
Year	**Gross Purchase (Cr)**	**Gross Sales (Cr)**	**Net Investment (Cr)**	**Cumulative Investment ($ Mn)**
2005	286,021.40	238,840.90	47,181.90	10,706.30
2006	475,624.90	439,084.10	36,540.20	8,107.00
2007	814,877.90	743,392.00	71,486.30	17,655.80
2008	721,607.00	774,594.30	-52,987.40	-11,974.30
2009	624,239.70	540,814.70	83,424.20	17,458.14
2010	766,283.20	633,017.10	133,266.80	29,361.83
2011	611,055.60	613,770.80	-2,714.20	-357.83
2012 (January – October)	543,726.30	450030.60	93,695.70	18034.24

Trends in FII Investment (Debt)				
Year	**Gross Purchase (Cr)**	**Gross Sales (Cr)**	**Net Investment (Cr)**	**Cumulative Investment ($ Mn)**
2005	7,015.50	12,553.20	-5,518.40	-1,224.50
2006	11,061.40	7,012.30	4,049.00	882.60
2007	31,418.90	21,991.30	9,428.50	2,340.10
2008	48,020.10	36,248.40	11,771.90	2,636.40
2009	111,773.40	107,210.10	4,563.40	1,049.13
2010	206,373.30	159,965.40	46,408.00	10,112.16
2011	288,858.70	246,793.50	42,067.00	8,654.62
2012 (January – October)	172,629.60	137,353.10	35,277.80	6,684.85