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Impact Of Stock Market On Indian Economy

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Abstract: India is projected to become the third largest economy in the world by purchasing power, following the United States and China, by the year 2035. It is anticipated that India's economy will reach 60% of the size of the US economy. However, this rapidly growing economy must navigate several phases before achieving the current milestone of a 9% GDP. Fluctuations in the stock market can significantly influence both the economy and individual consumers, as a decline in share prices may lead to widespread economic turmoil. This paper examines the crucial role of the stock market in the growth of the Indian economy and its impact, utilizing a conceptual methodology based on journals related to the Indian stock market.

Keywords: - Indian Economy, GDP, Global Investment Bank, Economic Disruption, Share Price.

I. INTRODUCTION

The stock market, also known as the equity market or share market, refers to the collective network of buyers and sellers engaged in the trading of stocks, which are ownership claims in businesses. This encompasses securities that are publicly listed on stock exchanges as well as privately traded stocks. An example of the latter includes shares of private companies that are offered to investors via equity crowd funding platforms. Stock exchanges facilitate the listing of common equity shares alongside various other types of securities, such as corporate bonds and convertible bonds. The stock market's growth and evolution have been extraordinary, attracting the interest of policymakers, financial experts, and economists due to its positive effects on the real economy. It serves as a vital component in the allocation of funds essential for economic advancement. However, the relationship between the market and its beneficial effects on the economy is intricate, with origins that can be traced back to the early twentieth century. From this perspective, the evolution of the stock market is seen as a result of economic growth. Ongoing economic advancement necessitates an increase in financial services and the introduction of new financial instruments. The financial system evolves to meet the funding requirements of the real economy and aligns with its independent growth.

II. CONCEPT OF STOCK MARKET:-

Indian capital market is exposed to tremendous reforms in the last decade. The reforms are triggered by changes in policy by union government and the same is accepted and stimulated by introduction of new financial products by stock exchanges, better legal frame work by the regulator and active participation by depository participants, share brokers, domestic as well as foreign investors. The Indian Capital market provides the financial backbone for business entities. Indian capital market has undergone tremendous changes after the establishment of Securities and Exchange Board of India (SEBI) in 1992. The concept of stock

markets came to India in 1875, when Bombay Stock Exchange (BSE) was established as, 'The Native Share and Stockbrokers Association', a voluntary non-profit making association.

We all know it, the Bhaji market in your neighborhood is a place where vegetables are bought and sold. Like Bhaji market, a stock market is a place where stocks are bought and sold. The stock market determines the day's price for a stock through a process of bid and offer. You bid to buy a stock and offer to sell the stock at a price. Buyers compete with each other for the best bid, i.e. the highest price quoted to purchase a particular stock. Similarly, sellers compete with each other for the lowest price quoted to sell the stock. When a match is made between the best bid and the best offer a trade is executed.

III. REVIEW OF LITERATURE:-

SEBI (2022) Report on "Retail Participation Post-COVID" highlighted a significant surge in retail investors in the Indian market. It noted that demat accounts more than tripled between 2020 and 2022, driven by digital access, mobile trading apps, and financial awareness.

Ramesh and Thomas (2020) analyzed the sector-wise performance during and after the COVID-19 lockdown. Their study showed that while travel and hospitality stocks declined sharply, the pharma and IT sectors performed exceptionally well due to increased global demand.

Bhalla (2023) emphasized the influence of global cues such as oil prices, US Federal Reserve policies, and geopolitical events on Indian stock markets. The research found that foreign institutional investment (FII) inflows/outflows significantly drive short-term volatility.

Jain & Agarwal (2019) explored investor sentiment and behavioral finance in Indian equity markets. They found that market momentum and herd behavior played a key role in driving trading decisions, especially among new investors.

RBI Bulletin (2023) discussed the role of monetary policy and interest rate decisions in shaping stock market expectations, particularly in the banking and real estate sectors Research

IV. METHODOLOGY:-

The present study is descriptive in nature for secondary data. The study uses secondary data, which are collected from Union Budgets, Government of India, SEBI website, and from various journals, magazine etc.

V. ROLE OF STOCK MARKET IN ECONOMIC GROWTH OF INDIA:-

The function of stock markets as a catalyst for economic growth has been extensively discussed. It is widely acknowledged that stock markets impact economic activity by generating liquidity. A liquid financial market was a crucial enabling factor for many of the early innovations that defined the initial stages of the Industrial Revolution.

Recent developments in this field indicate that stock markets continue to serve as a vital channel for promoting development. Numerous lucrative investments require a long-term capital commitment, however, investors may hesitate to forfeit control of their funds for extended durations.

The global economic deceleration is exemplified by Apple, a leader in consumer technology, which has issued a warning regarding lower-than-expected sales of its smartphones. This announcement led to a 10 percent drop in its stock price on Thursday, erasing nearly \$74 billion from the market capitalization of what was once the world's most valuable company. However, it has since rebounded by approximately 4 percent on the last trading day of the week.

Prior to addressing the emerging stocks of India, we would like to emphasize that our forecast for the Indian stock market in 2019 is significantly shaped by inter market dynamics. It is not surprising that there exists a strong correlation with emerging markets (EEM), given that India ranks among the largest markets. As elaborated extensively in our Emerging Markets Forecast for 2019, both emerging market currencies (CEW) and the Euro serve as leading indicators. The chart for emerging market currencies exhibits a similar pattern to that of emerging stock markets: a remarkable increase from January 2016 to January 2018, followed by a retracement. The recent retracement has brought this asset to a crucial support level.

The European Union, and our interpretation of the European Union chart: —What we conclude after analyzing this chart in detail as well as the current global market landscape is the following. Both US and European stock markets are in risk on mode, the US more than Europe.

All in all we believe our India stock market forecast for 2025 is not negatively impacted by leading indicators of emerging markets. We will get worried if the Euro starts falling (sharply) as well as emerging market currencies.

VI. ECONOMIC EFFECTS OF STOCK MARKET:-

The rise and fall in stock prices tend to influence numerous economic factors, including consumption and business investment. Moreover, just as how the stock market affects the economy, several conditions also impact the stock market. Here are some of the ways in which the stock market affects our economy:

1. Wealth effect-

The initial consequence is that individuals holding shares will experience a decline in their wealth. Should this decline be substantial, it may influence their financial perspective. As they incur losses on their shares, they may become more reluctant to expend funds, potentially leading to a decrease in consumer spending. Nevertheless, this effect should not be overstated.

2. Effects on pensions-Anybody with a private pension or investment trust will be affected by the stock market, at least. Pension funds invest a significant part of their funds on the stock market. Therefore, if there is a serious fall in share prices, it reduces the value of pension funds. This means that future pension payouts will be lower.

3. Confidence

Often share price movements are reflections of what is happening in the economy. E.g. a fear of a recession and global slowdown could cause share prices to fall. The stock market itself can affect consumer confidence. Bad headlines of falling share prices are another factor which discourage people from spending.

4. Investment:-

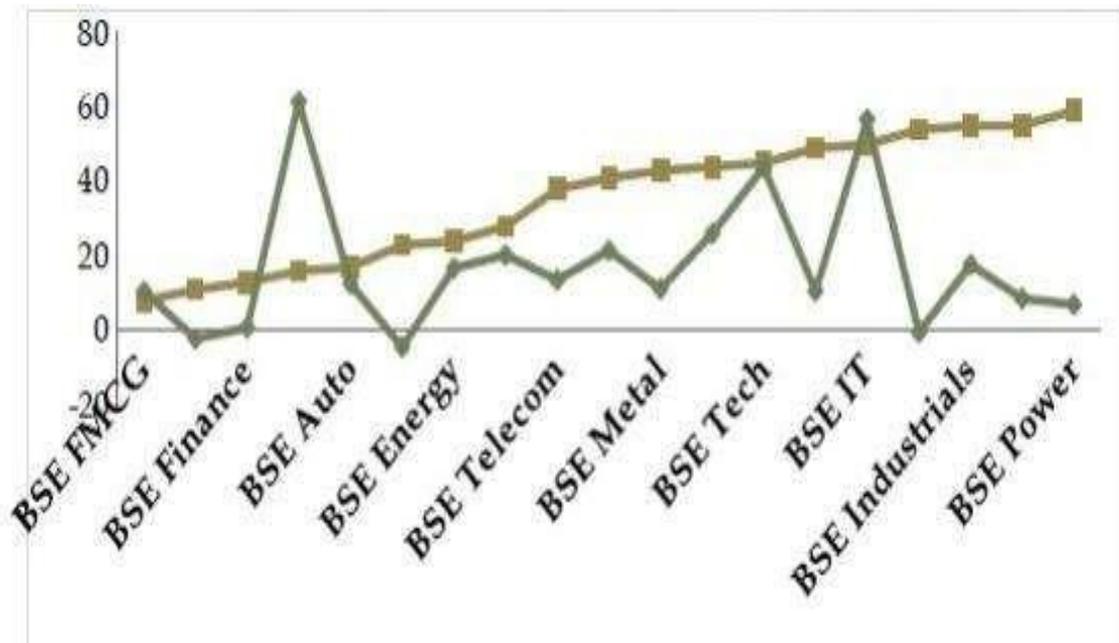
Falling share prices can hamper firm's ability to raise finance on the stock market. Firms who are expanding and wish to borrow often do so by issuing more shares – it provides a low cost way of borrowing more money. However, with falling share prices it becomes much more difficult.

5. Bond Market

A fall in the stock market makes other investments more attractive. People may move out of shares and into government bonds or gold.

Which sectors performed well?

There are 19 sector-wise indices in the BSE Sensex. All of these have shown positive growth in 2021 (numbers until December 28). The biggest gainers in 2021 were the power and realty subsectors, a sharp contrast to their below-average performance in 2020. The IT subindex continued to perform well in keeping with its 2020 trend. The fast-moving consumer goods



(FMCG) sub index showed the smallest gains, largely a reflection of the weak consumer demand in the economy. Among the 30 stocks, which are a part of the BSE S&P Sensex, Tech Mahindra Ltd. was the biggest gainer, while Kotak Mahindra Bank Ltd. had the worst performance.

VII. FINDINGS OF THE STUDY:-

1. The Third Largest in the world of Indian Economy in terms of purchasing power. It is going to touch new heights in coming years.
2. The Global investment Bank, by after US and China 2035 India would third largest economy of the world.
3. Movements in the stock market can have a profound economic impact on the economy and individual consumers.
4. A collapse in share prices has the potential to cause widespread economic disruption. This paper deals with stock market play vital role in growth of Indian Economy and also the Impact Stock market on Indian Economy by Way of Conceptual Methodology using to the Journals of Indian Stock Market.
5. The link between stock market development and economic activity has always been the subject of considerable debate in the field of economics and it raises empirical question whether stock market development influences economic activity or whether it is a consequence of increased economic activity.

Economic Growth Rate:-

The government should prioritize the development of the stock market through relaxing laws and of listing requirements for investors so as to encourage more market participants on the stock exchange and thus increases competition and quality of securities investments resulting in a significant influence on economic growth in India.

An economic growth rate is the percentage change in the value of all of the goods and services produced in a nation during a specific period of time, as compared to an earlier period ... in most cases, the economic growth rate measures the change in a nation's gross domestic product (GDP)

Since there is a direct relationship between the GDP and stock market: A positive change in the GDP a higher GDP growth number will invigorate the stock markets, and as a result the market will go up. If the stock market moves up, it will impact your investment portfolio positively.

VIII. CONCLUSION:-

The empirical results indicate a bidirectional causality between market capitalization and economic growth, while a unidirectional causation is observed from the turnover ratio to economic growth in both the long and short run. Overall, it can be concluded that stock market development indicators, such as market capitalization and turnover ratio, positively impact economic growth in India. Consequently, this study advocates for capital market regulators to establish effective policy frameworks aimed at enhancing the development of the Indian stock market, thereby significantly increasing its size, depth, and liquidity, which in turn fosters greater economic activity. Furthermore, the government should focus on advancing the stock market by easing regulations and listing requirements for investors to attract more participants to the stock exchange, thereby enhancing competition and the quality of securities investments, ultimately leading to a substantial effect on economic growth in India.

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