

Macroeconomic Variables and Stock Index in India: An Empirical Analysis

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This paper attempts to unravel the relationship between the macroeconomic variables and the capital market in Indian context. It considers the monthly data of several economic variables such as foreign exchange reserves, claims on private sector, wholesale price index, call money rate, index of industrial production, exchange rate and 'broad money', with those obtained earlier between April 1986 and March 2005. It tries to reveal the relative influence of these macroeconomic variables on the Sensitive index of the Bombay Stock Exchange. Compared to the earlier attempts, this paper applies the technique of multiple regression analysis and compares the results. Although there have been some periods of fluctuations, certain variables like foreign exchange reserves, exchange rate, index of industrial production, money supply (M3) and claims on private sector have considerable influence on the stock market movement. However, a few variables like interest rate and wholesale price index have shown very negligible influence on the stock market. The study confirms the traditional belief that real economic variables continue to affect the stock market in the post-reform era in India and also highlights the insignificance of certain variables with respect to stock market. The study will be of immense use for the national policy makers, researchers, corporate managers and regulators.

I Introduction

Globalization and financial sector reforms in India have ushered in a sea change in the financial architecture of the economy. In the contemporary scenario, the activities in the financial markets and their relationships with the real sector have assumed significant importance. Since the inception of the financial sector reforms in the beginning of 1990's, the

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