Indian Stock Market Crash

What is the issue?

On Monday, the Indian stock markets tumbled sharply as the BSE Sensex lost 2% of its value while the Nifty lost 1.7%.

What are the stock exchanges in India?

- Most of the trading in the Indian stock market takes place on its two stock exchanges
  1. The Bombay Stock Exchange (BSE)
  2. The National Stock Exchange (NSE)
- **BSE-** It is the first securities market in India established in 1875.
- Based in Mumbai, India, the BSE lists close to 6,000 companies and is one of the largest exchanges in the world.
- The BSE enables investors to trade in equities, currencies, debt instruments, derivatives, and mutual funds.
- **NSE**- Incorporated in 1992, NSE is India's largest financial market and the fourth largest market by trading volume.
- The NSE is the largest private wide-area network in India.
- The NSE has been a pioneer in Indian financial markets, being the first electronic limit order book to trade derivatives and ETFs.

> *The overall responsibility of development, regulation, and supervision of the stock market rests with the Securities and Exchange Board of India (SEBI), which was formed in 1992 as an independent authority.*

Why did Indian markets fall?

- **Russia-Ukraine war**- European Union countries' approval of a ban on Russian coal imports which will take effect from August, will add to the rising energy insecurity in the region.
- There are also reports of some sanctions on crude oil in the next set of EU sanctions.
- **US Fed's rate hike**- The ongoing monetary tightening in the US (reduction in liquidity and costlier credit) will make the Foreign Portfolio Investors (FPIs) to find stock markets in India less attractive as the returns in the US have improved.
- Expectations in the market that the US Federal Reserve may increase the pace of rate hike add to the fall in market.
- **Chinese factor**- The rising Covid-19 cases in China are likely to hurt global supply chains that could further lead to rise in inflation.
- The slower than expected pace of growth of the Chinese economy (GDP of 4.8 %for the first

quarter of 2022) has impacted the market sentiment.

- **Inflation in India-** Economists are expecting as many as six repo rate hikes in the coming Monetary Policy Committee meetings.
- The RBI suggested to shift focus from reviving growth to mitigating risks posed by inflation in its recent monetary policy statement.

What next for Indian markets?

- **Equity markets**- Equity markets are likely to remain volatile in the near term, given the global scenario around geopolitical concerns and inflation.
- **FPI-** The FPI flows may remain unstable and may even witness an outflow in line with an expected increase in the pace of rate hike by the US Fed.
- **Domestic inflation**- Domestic inflation, which hit 6.95 % in March, continues to be a cause of concern for Indian markets.
- The RBI signalled a shift in its focus from reviving growth to mitigating risks posed by inflation.
- **Rate hikes**- The continued pressure on account of inflation may force the RBI to also go for faster rate hikes.

References

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