Reserve Bank of India's Monetary Policy Impact on Indian Stock Market -A Study.

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Abstract

The Indian Stock Market gain the momentum from last so many years from the investor's point of view. Volatility is the main worry for any individual investors as the returns through stock market depends on various functions in economy. Volatility in financial markets is a phenomenon which is influenced by many macroeconomic variables. For the reason that unexpected validity in the market can lead to severe losses, tracking and determining its trend become very much necessary. Stock Markets always encouraging the investments. This study has been undertaken to investigate and explore the effect of Reserve Bank of India's Monetary Policy on Bombay Stock Exchange by using different statistical tools. This study will be beneficial for the investors who might be able to identify some selected economic factors that they should focus while investing in stock market as they results in fewer returns. This Study specially focuses on Repo Rate and Reverse Repo Rate. Impact of selected rates is the part of study analysis from investment perspective. Researcher selected the period of study from the year April 2017 to March 2018. The implications of the research are carried out to identify the investors' interest while making investment whether they consider the above select macroeconomic variable for their investment.

Keywords*: Macroeconomic Variable, BSE SENSEX, Stock Prices, Individual Investors, Descriptive Statistics.*

I. INTRODUCTION

Indian stock market plays pivotal role in the growth of the Indian economy. Its every movement puts an impact on the performance of the economy. The stock market is the place where the investors invest or withdraw funds for capital appreciation. Their decisions to invest or withdraw the funds depend upon the numerous factors. The various proponents opined that the macroeconomic variables are the one of them. Macroeconomics is the analysis of the nation's economy as a whole. It scrutinizes the cyclical movements and trends exists in economy such as gross domestic production, unemployment, inflation, money supply, budget deficits, international trade and exchange rate, etc. The various schools of thoughts like Classical theory by Adam Smith, David Ricardo, Thomas Robert Malthus and John Stuart Mill, Keynes theory by John Maynard Keynes, New Classical theory, New Keynesian theory and New Growth theory developed their own views about the role of macroeconomic variables in economy by considering different assumptions. But, they accepted that macroeconomic variables are the most remarkable variables and Governments can't make their policies, rules and regulations without contemplating them. So, macroeconomic variables are the key indicators to show the prevailing trends in the economy. The various researchers did a remarkable work to evaluate the association between changes in macroeconomic variables and stock market returns by using different tools and techniques.

Macro economical Variable Consider for Study:

Reserve Bank of India (RBI) in its objective of restarting growth engine and combating inflation will be firmly focused on keeping the economy on a disinflationary glide path which may sometimes results in positive effects on stock market. However as per RBI, further policy tightening in the near term is not anticipated. Any changes in RBI monetary policies have a huge impact on stock markets. The stock market moves higher or lower on the basis of the expectations from the changes which might come after the announcement of the policies. This also results in increase or decrease in individual investments in stock market. This study focuses on the rates such repo rate and reverse repo rate to identify the impact if it changes according to the market situations and do this effect results or consider by the individual investors while making investment in Bombay Stock Market.

The relationship between macroeconomic variable i.e. Reserve Bank of India's Monetary Policy and stock prices has been an attractive subject for both financial and macro economists for a long period of time. A number of studies investigate the link between this macroeconomic variable and stock market. However, there is no consensus on the direction of causality among these variable, which remained a source of ambiguity. In this research study, researcher tried to focus on the relationship between macroeconomic variable and stock market & its impact on individual investments.

Review of Literature:

Ioannidis and Kontonikas (2006) and Jensen et al (1996) believe that changes in monetary policy affects stock market performance and they especially lead to changes in stock prices. Whereas, others such as Bordo and Jeanne (2000) and Fair (2001) are of the opinion that monetary policy has little or no effect on stock market performance. Among those who believe monetary policy affects stock market performance, there are divergences as to which tool of monetary policy is more important. While some like Rigobon and Sack (2001), Hayford and Maliaris (2002) believe that interest rates are more important, others like Wing et al (2005) and Mehar (2000) believe that changes in the supply of money is the dominant factor in monetary policy transmission mechanism.

Objective of the study:

The plan of the paper is to establish, investigate and assess the impact of RBI's Monetary Policy on stock prices of indices of BSE (SENSEX). In this way, this paper would attempt to attain the only objective of "Reserve Bank of India's Monetary Policy Impact on Indian Stock Market -A Study.

Scope of the Study:

This Study enlightens and helps investors to understand the effect and impact of macroeconomic variable such as Reserve Bank of India's Monetary Policy on stock indices. This also helps and assists the investors in terms of managing their portfolios by considering the uncontrollable fluctuations of such type of economic variable from returns. The study reveals and helps investors from buying and selling of stock. The study will also help the companies to know their share price fluctuations.

Limitations of the Study:

1. The stock market performance is measured only through BSE SENSEX.
2. The time period of study is only 1 Year and only one macroeconomic variable is considered for study.

Research Methodology:

Type of Research:

Exploratory and Descriptive in nature.

Sampling Technique:

Convenience sampling technique used to pick up sample.

Dependent Variable	Independent Variable
BSE SENSEX	Reserve Bank of India's Monetary Policy

Data Used:

Secondary Data:

To study the relationship between the stock market performance and selected economic indicator; researcher collected secondary data from different sources. BSE SENSEX data collected from bseindia.com

Time Period:

One year period from April 2017 to March 2018.

This study is mainly based on Desk Research i.e. secondary data that have been collected from the database on Indian economy maintained by Reserve Bank of India and Bombay Bullion Association. The study analyses the monthly data on Reserve Bank of India's Monetary Policy in terms of repo rate, reverse repo rate and stock market returns in India for the aforesaid period. Wherever data were missing, the averages of the data of the previous month and next month have been taken.

Hypothesis:

There is relation between stock market performance and macroeconomic indicator such as Reserve Bank of India's Monetary Policy in terms of repo rate, reverse repo rate.

Statistical Tools Used:

F-Test.

RESULTS AND DISCUSSION:

Table

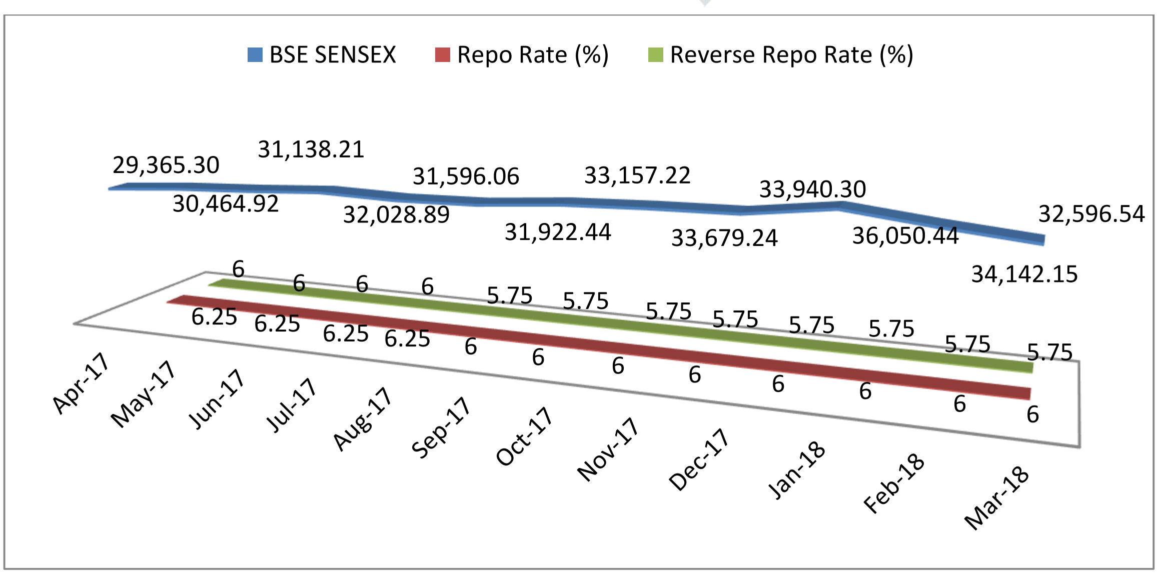
Reserve Bank of India's Monetary Policy

Year & Month	BSE SENSEX	Repo Rate (%)	Reverse Repo Rate (%)
April 2017	29,365.30	6.25	6.00
May 2017	30,464.92	6.25	6.00
June 2017	31,138.21	6.25	6.00
July 2017	32,028.89	6.25	6.00
August 2017	31,596.06	6.00	5.75
September 2017	31,922.44	6.00	5.75
October 2017	33,157.22	6.00	5.75
November 2017	33,679.24	6.00	5.75
December 2017	33,940.30	6.00	5.75
January 2018	36,050.44	6.00	5.75
February 2018	34,142.15	6.00	5.75
March 2018	32,596.54	6.00	5.75

(Source:https://www.rbi.org.in/Scripts/WSSViewDetail.aspx?TYPE=Section&PARAM1=4)

Figure 1: Chart Showing Yearly Fluctuation of BSE Sensex and Economic Indicator (Repo Rate and Reverse Repo Rate) from April 2017 to March 2018.

Graph: RBI's Monetary Policy (RBI's MP)



HYPOTHESIS TESTING:

"There is relation between stock market performance and selected macroeconomic indicator. F-Test is applied to study whether there is relation between stock price and macroeconomic variables or not. The following results were obtained.

Tabulated Result F-Test			
Source of Variation	Sum of Squares	Degree of Freedom	Variance
Between Samples	1149200317977.61	15	82085736998.42
Within Samples	805321188.87	62	13422019.82
Total	1150005639166.47	75	
F Value	6115.751442		

It was found from the above analysis F-value for the given degree of freedom at 5% level of significance is **1.8364** which is less than the calculated F – value **6115.751442**. It means that the variance between the samples is significantly greater than the variance within the samples. We accept the hypothesis, "There is relation between stock price and selected macroeconomic variables",

FINDINGS:

Under the Reserve Bank of India's monetary policy (RBI MP), repo rate and reverse repo rate considered for study. Repo rate from the year 2017 to 2018 was maximum in decreasing order through months. While in case of reverse repo rate from year 2017 to 2018 was maximum in decreasing order. It is interpreted that as BSE SENSEX fluctuates when there is decrease or down fall of repo rate and reverse repo rate. There is an impact of this macroeconomic variable on stock market i.e. BSE SENSEX to maximum extent. When RBI cuts the repo rate by some points it directly affects the different stocks which is sure shot win-win situation and also tends to aggressive growth of various sectors such as banking, automobile etc.

CONCLUSIONS, SUGGESTIONS:

The effectiveness of the monetary policy on stock markets is an important piece of finding for policy makers since this can be used in case when an immediate response from stock prices is required. The lag involved between repo rate and bank credit is an important finding for policy makers since the impact on aggregate demand and the real economy. As researcher of this study also investigated the macroeconomic variables affects on investments in BSE. As the volatility in stock market results in the investments also results certainly changes in stock prices which sometimes affects the returns of investor's. The stock market is very sensitive. Surgical strike event may not be affect to common man but stock market fall near about 150 points.

The investigation of relationship between Indian stock market and macroeconomic variable done by number of researchers. As it is found out from the various studies that macroeconomic variables are responsible for up-down movements in stock market. The relationship between BSE SENSEX and macroeconomic variable were positive on BSE SENSEX.

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