Foreign Portfolio Investment And Macroeconomic Factors In India

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Abstract*: Foreign Portfolio Investment (FPI) is a part of worldwide capital flows comprising of put out of monetary assets such as currency, supply or bonds across global borders in wish for earnings. FPI is a sole entity, which either boosts or impedes Indian economy and savings approach with each of momentary waft. For the period of behind 1980$_s$ and near the beginning 1990$_s$ portfolio savings emerged as a most essential type of resources inflow to growing countries. The consequence of portfolio savings to budding countries has arrived downward once the East Asian crisis of 1997. On the additional, most other emergent countries, India is at a standstill more reliant in the lead of Foreign Portfolio Investment (FPI) than Foreign Direct Investment (FDI) as a resource of foreign investment. Foreign Portfolio Investment inflows and outflows have a direct impact on Indian economy. One of the majority imperative features of the expansion of Indian economy in the last twenty years has been the mounting participation of FPI. Portfolio investment being an immediate verity it displays the Indian economy influence instantly. The aim of this revise is to check the relationship between Foreign Portfolio Investment (FPI) and select macroeconomic Indicators in India.

Keywords: Foreign Portfolio Investment (FPI), Fiscal assets, Indian Economy, Money, Supply.

I. INTRODUCTION OF THE STUDY

India launched a programme of financial strategy reforms in reaction to a monetary and balance of payment disaster in July 1991. Though the 1980s witnessed a fairly insufficient deregulation, the reforms of 1990s are to a great extent wider and deeper. India's reforms are preceded by a severe economic crisis. Foreign savings have played a very narrow part in India's economy previous to 1991. India followed a literally preventive overseas confidential investment policy in anticipation of 1991. As a separation of monetary reforms initiated from 1991, the place of the government distorted spectacularly towards overseas savings both straight and selection greater than the post reform period. India not merely allowed overseas savings in in the order of all sectors of the economy but in addition, permitted foreign portfolio investment. Portfolio investment is an original event with the intention to reside in a position in the principal account simply after 1992-93. The raise in the pour of foreign resources to budding countries increases the effectiveness of investment distribution in crowd countries, which helps to boost cash flows as of the wealthy countries to promising economies, appropriate to small savings returns in wealthy countries and their rise in emerging countries. For crowd countries, this money flow reduces the rate of money, increases savings and enhances the competitiveness of neighboring companies in the worldwide markets, which resolve entirely affect the construction and require for labor. The amplified inflow of overseas resources into the budding countries like India is predictable to take action as a channel of fiscal growth. Hence, this study is an attempt to examine the relationship between foreign portfolio investment and select macroeconomic indicators in India.

II. REVIEW OF LITERATURE

Anthony Kyereboah–Coleman and Kwame F. Agyire–Tettey (2008) studied the consequence of exchange rate changes on foreign direct investment in sub-Saharan Africa for the phase 1970-2002. Autoregressive Conditional Heteroskedasticity and Generalized Autoregressive Conditional Heteroskedasticity models were engaged to resolve the real exchange changes and co-integration. Error Correction Model was adopted to investigate short term and the long term associations. This article showed that the unpredictability of the real exchange rate have a unhelpful influence on FDI inflow. It also revealed with the intention of both the stock of Foreign Direct Investment and political indicators are likely to attract FDI and do not think about the extent of the market in creating a decision to spend.

Egly Peter V. et al (2010) examined the connection of net foreign portfolio investment inflows, such as corporate bonds and stocks, U.S. stock market and the investor risk aversion. Vector autoregressive model (VAR) were used and the outcome of that model showed that optimistic stocks to the stock market bring out an unimportant reply to the net corporate bond inflow and a important small term optimistic reply to the net corporate stock inflow. The study concluded that inner realm explicit indicators may impact the foreign portfolio inflows.

Guluzar Kurt Gumus and Bener Gungor (2012) analysed the association among foreign portfolio investment and macroeconomic indicators for the phase between 2006 and 2012. VAR, Granger causality test, Impulse responses and Variance decomposition was applied. The results of Granger causality test and Impulse response test indicated that foreign portfolio investment affects Istanbul Stock Exchange price index and exchange rates. Industrial production index alone had affected on foreign portfolio investment. Variance decomposition test found to facilitate difference in Istanbul Stock Exchange price index and difference in exchange rates from foreign portfolio

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investments.

Bilal Aziz el al (2015) examined the impact of determinants of foreign portfolio investment (FPI) in Pakistan during the period of 2005 – 2014. This study has used the time series data and ordinary least square regression model has been applied to estimate the relationship of dependent and independent variables. The independent variables which have been used to explain the FPI inflows include foreign exchange rate, trade degree of openness, and inflation rate growth rate of real GDP and market capitalization. The results of the OLS regression model indicated that trade degree of openness, growth rate of real GDP and market capitalization have positive and significant relationship with foreign portfolio investment in Pakistan. Foreign exchange rate has positive but insignificant relationship with FPI in Pakistan. It is suggested that government of Pakistan should provide to risk free environment to the foreign investor and local investors to increase foreign investment.

Khalafalla Ahmed Mohamed Arabi and Dirar Alotaibi (2018) determined the unpredictability overflow of foreign portfolio savings inflow to Saudi stock market on monetary variables. The variables taken are Tadawul shares index, interest rate differentials, foreign portfolio investment, oil prices, price earnings ratio and nominal effective exchange rate. Multivariate Generalized Autoregressive Conditional Heteroskedasticity (MGARCH) model was used to estimate the quarterly data for the period 2006Q1 – 2017Q2. The result unveiled that there is a long run relationship between the monetary variables and every coefficients of the variables are very much considerable.

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III. STATEMENT OF THE PROBLEM

Investing globally has frequently been the recommendation given to the investors looking to boost the diversification and total return of their portfolio. However, although the benefits of investing worldwide are broadly accepted theories, many investors are still cautious to invest out of the country. Overseas investment, during count toward dropping the difficulty of the balance of payments scarcity, as well reduces the foreign exchange break of the least residential countries, therefore facilitating the import of essential merchandise in a foreign country. For the phase of 1992 to 2005, more than fifty four percent of overseas savings in India has come in the type of FPI. The FPI assistance has brought incredible changes in the expansion of Indian economy. One of the most essential features of the growth of India in the last twenty years has been the mounting participation of FPI. It is generally pragmatic that the inflow of funds in stock market raises savings sentiments and the stock indices. Portfolio investment being an instant fact it displays the Indian economy influence right away. Therefore, an attempt is being made in this study is to identify the influence of Foreign Portfolio Investment (FPI) on macroeconomic indicators in India.

IV. OBJECTIVES

To analyse the relationship between Foreign Portfolio Investment and select macroeconomic indicators in India.

V. HYPOTHESIS

H_{01} = There is no significant relationship between Foreign Portfolio Investment and select macroeconomic indicators in India.

VI. METHODOLOGY

This article is based on secondary statistics. The statistics is composed from a variety of data repositories such as Reserve Bank of India (RBI), ,World Bank Indicators, Securities and Exchange Board of India (SEBI) plus other financial institution sites for the period of ten years from 2008-09 to 2017-18. Foreign portfolio investment (FPI) inflows are considered as independent variable and Gross Domestic Product (GDP), BSE SENSEX (Market capitalization), Money Supply (M3) are chosen as the measure of growth of Indian Economy (Dependent variables). Correlation test is adopted to analyse the relationship between the above said variables.

VII. RESULTS AND DISCUSSION

A. Descriptive Statistics of Foreign Portfolio Investment and Select Macroeconomic Indicators

Table 1 Descriptive Statistics of FPI and Select Macroeconomic Indicators

Year	FPI	GDP	BSE	M3
2008-09	-45811.00	8.48	30860.76	45.64
2009-10	142658.00	10.26	61656.20	53.06
2010-11	146438.00	6.64	68390.84	61.86
2011-12	93726.00	5.46	62149.12	70.35
2012-13	168367.00	6.39	63878.87	79.66
2013-14	51649.00	7.41	74152.96	89.98
2014-15	277461.00	8.15	101492.90	100.00
2015-16	-18176.00	7.11	94753.28	110.25
2016-17	48411.00	6.62	121545.25	117.91
2017-18	144682.00	7.20	142249.97	129.28
Mean	**100940.50**	**7.37**	**82113.02**	**85.80**
SD	**95681.94**	**1.33**	**32888.17**	**28.43**
CV	**94.79**	**18.10**	**40.05**	**33.13**

Source: Computed

The above table shows the descriptive statistics of FPI and selects Indian economic indicators. The mean value (100940.50) of FPI shows high than all the variables. The standard deviation (95681.94) is also high in FPI which imply that there is high degree of variability in FPI. The coefficient of variation is low in GDP which reveals that high consistency.

B. Relationship between FPI and Select Macroeconomic Indicators

H01 = There is no significant relationship between FPI and select Indian economy indicators.

Table 2 Correlation between FPI and Select Macroeconomic Indicators

Variables	Pearson Correlation	Sig (2-tailed)
GDP	.090	.805
BSE	.276	.440
M3	.758	.758

Source: Computed

Table 2 shows that the correlation between FPI and select Indian economic indicators for the period 2008-2009 to 2017-2018. It reveals that the Pearson correlation of all the variables is positive which indicates that when FPI increases, the GDP, BSE AND M3 will also increase. Similarly if FPI decreases, the other variables will also decreases. The Pearson correlation value is low in all the variables, implies that changes in FPI is not correlated with changes in GDP, BSE and M3. Sig (2-tailes) value of the above said variables are greater than 0.05, hence the null hypotheses is accepted and shows that there is no statistically significant between FPI and select macroeconomic indicators in India.

VIII. CONCLUSION

The present study was an attempt to analyse the relationship between FPI and select Indian economy indicators. In the light of correlation results, the variables GDP, BSE, and Money Supply (M3) are positive but not significantly correlated with FPI. It also found that the economic growth of India is independent of foreign portfolio investment. Hence, India must take multidimensional policy measures to speed up the rapidity of economic growth, which in turn would attract FPI and ensure further economic growth. Therefore, accurate policies and appropriate implementation may possibly help India to exploit the benefits and diminish the cost of inflows of FPI and other related troubles to prop up the economic stability

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