International Journal of Emerging Research in Engineering, Science, and Management
Vol. 4, Issue 1, pp.37-40, Jan-Mar 2025.
www.ijeresm.com eISSN – 2583-4894

Foreign Portfolio Investment in India's Capital Market: A Comprehensive Analysis of Equity and Debt Flows

Nishita Thakrar

Assistant Professor, Department of Commerce, Atmiya University, Rajkot, Gujarat, India. nishitathakrar999@gmail.com
ORCID: 0009-0001-5261-9353

Abstract: This research analyzes Foreign Portfolio Investment (FPI) trends in India's equity and debt markets from 2019 to 2024. It examines the macroeconomic and global factors influencing FPI flows and their impact on India's financial landscape. The study highlights notable fluctuations in FPI inflows and outflows, driven by geopolitical tensions, monetary policy shifts, and global uncertainties, including the COVID-19 pandemic. Through statistical analysis, the research identifies key patterns and correlations between FPI movements and domestic economic indicators such as interest rates, exchange rates, and market capitalization.

Keywords: Capital Market, Covid-19, Debt Market, FPI, Inflow and Outflow.

1 INTRODUCTION

Foreign Portfolio Investment refers to the securities and financial assets owned by foreign investors without granting them direct ownership of a company's assets [1]. Instead, investors hold passive ownership, ensuring liquidity and adaptability to market fluctuations. FPI, along with Foreign Direct Investment (FDI), plays a crucial role in shaping the investment landscape of many economies. It is a key component of a country's capital structure and is reflected in its Balance of Payments. FPI includes various financial instruments such as stocks, bonds, mutual funds, American Depositary Receipts (ADRs), and exchange-traded funds [2].

In recent years, emerging markets have become attractive investment destinations due to their high returns and relatively low risks, drawing significant interest from foreign investors. Increased stock market volatility has prompted many investors to diversify their portfolios by exploring commodities, bond, and foreign exchange markets. This marks a shift from earlier investment preferences when foreign investments were less common [3].

Since India's economic liberalization in 1991, the country has actively encouraged foreign investments, fostering technology inflows, competitive industries, and economic growth [4]. The introduction of foreign portfolio investments in 1992-93 was pivotal, facilitating foreign capital inflows and improving investment efficiency. These reforms addressed an immediate balance of payments crisis and laid the foundation for India's deeper integration into the global financial system [5].

While both FDI and FPI contribute to economic development, FPI is generally more volatile, influenced by factors such as interest rate differentials, market capitalization, exchange rate stability, and global economic conditions [6]. Understanding these determinants is essential for policymakers and investors alike. This study aims to analyze FPI trends in India's equity and debt markets from 2019 to 2024, identifying key macroeconomic influences and investment patterns using statistical tools [7]-[8].

2 LITERATURE REVIEW

This research examines the factors influencing portfolio flows to India between 2019 and 2021, focusing on key macroeconomic determinants. It finds that lower exchange rate volatility and better risk diversification opportunities positively impact FPI flows, whereas higher equity returns in other emerging markets tend to discourage them. Traditional factors such as domestic equity performance, exchange rate movements, interest rate differentials, and domestic output growth also play a critical role in shaping FPI trends. These elements collectively influence emerging market stock behavior, interest rate gaps, and exchange rate stability, underscoring their interconnected impact on investment patterns [3].

Several studies highlight that FPI inflows are more volatile than FDI. While FDI provides long-term stability and technological spillovers, portfolio investments exhibit short-term fluctuations due to external shocks and monetary policy changes. Research indicates that addressing structural challenges—such as inconsistent policies and infrastructure bottlenecks–is essential for maintaining a stable investment environment, particularly in high-growth sectors like e-commerce and logistics [9].

International Journal of Emerging Research in Engineering, Science, and Management
Vol. 4, Issue 1, pp.37-40, Jan-Mar 2025.
www.ijeresm.com eISSN – 2583-4894

Global trade dynamics and domestic policy reforms further influence FPI flows. India's 'Invest in India' initiative has been crucial in attracting foreign investments by easing finance, telecom, defence, and manufacturing regulations. Studies suggest that multinational enterprises (MNEs) have contributed to improved productivity, job creation, and competitiveness in India. However, despite the policy-driven growth in foreign investment, debates continue regarding the overall impact of foreign capital inflows, particularly regarding market volatility and dependency on external factors [10].

A sectoral analysis of FPI inflows from February 2012 to July 2020 reveals short-term positive correlations with the Index of Industrial Production (IIP), FDI, and market capitalization (MC) but a negative correlation with the US dollar exchange rate (DEXR) and real effective exchange rate (REER). Using the Panel Autoregressive Distributed Lag (ARDL) model, studies find that in the long run, FPI inflows exhibit a negative relationship with interest rate differentials (IRD), market capitalization (MC), and the US DEXR while maintaining a positive link with international liquidity (IL) and REER. Notably, higher interest rate differentials attract FPI in most sectors, except for new economy sectors, which remain less sensitive to such variations. These findings highlight the need for policies that ensure a stable and attractive investment environment to encourage foreign portfolio investors and maintain steady capital flows [11].

3 RESEARCH METHODOLOGY

This study utilizes secondary data from National Securities Depository Limited (NSDL) and Yahoo Finance. The dataset comprises monthly records spanning the financial years 2019 to 2024. The analysis primarily focuses on identifying trends in the original data series, assessing whether there is an upward or downward movement over time. Linear Regression Analysis has also been employed to forecast FPI trends for 2021-2022. The objectives of the study are given below.

- To analyze the changes in Foreign Portfolio Investment (FPI) inflows in India before and after the COVID-19 pandemic.
- To examine the investment trends of FPI in India's equity and debt markets over the specified period.

4 FPI TRENDS IN EQUITY AND DEBT MARKETS

4.1 FPI in the Equity Market

Table 1 presents the inflow and outflow of FPI in the Indian equity market from 2019 to 2024. The trends of inflow and outflow of FPI in the Indian equity market from 2019 to 2024 are shown in Fig 1.

Table 1. Inflow and Outflow of FPI in the Equity Market [12]

Month/Year	2024	2023	2022	2021	2020	2019	Total
January	-25744	-28852	-33303	19473	12123	-4262	-60565
February	1539	-5294	-35592	25787	1820	17220	5480
March	35098	7936	-41123	10482	-61973	33981	-15599
April	-8671	11631	-17144	-9659	-6884	21193	-9534
May	-25586	43838	-39993	-2954	14569	7920	-2206
June	26565	47148	-50203	17215	21832	2596	65153
July	32365	46618	4989	-11308	7563	-12419	67808
August	7320	12262	51204	2083	47080	-17592	102357
September	57724	-14768	-7624	13154	-7783	7548	48251
October	-94017	-24548	-8	-13550	19541	12368	-100214
November	-21612	9001	36239	-5945	60358	25231	103272
December	15446	66135	11119	-19026	62016	7338	143028
Total	427	171107	-121439	25752	170262	101122	347231

The analysis of monthly FPI data in India's equity market (2019-2024) highlights significant fluctuations influenced by global and domestic factors. The total inflows indicate contrasting trends, with 2020 and 2023 emerging as the strongest years, recording inflows of ₹3,28,401 crore and ₹3,71,066 crore, respectively. Market corrections and attractive valuations drove these. In contrast, 2022 witnessed a sharp outflow of ₹2,09,575 crore, reflecting the impact of geopolitical tensions and monetary policy shifts. While 2019 and 2021 exhibited moderate inflows (₹2,06,506 crore and ₹32,031 crore, respectively), partial data for 2024 suggests a steady start with a net inflow of ₹26,598 crore. Monthly fluctuations were noticeable, with significant peaks and troughs, particularly in March and November, suggesting strategic portfolio rebalancing by foreign investors. The overall trends underscore the sensitivity of FPI flows to evolving economic conditions, policy changes, and market sentiment.

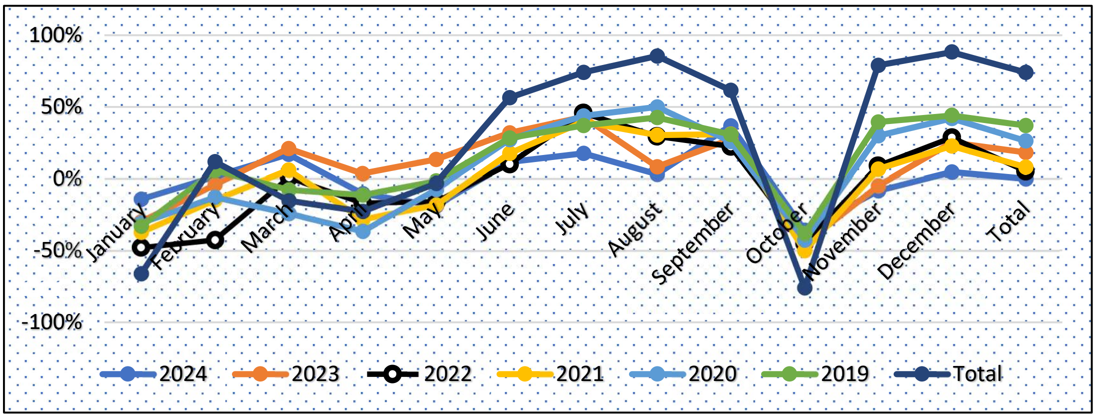

Fig. 1. Inflow and Outflow of FPI in the Equity Market

4.2 FPI in the Debt Market

Table 2 presents the inflow and outflow of FPI in the Indian debt market from 2019 to 2024. Fig. 2 plots the data presented in Table 2, where the trends can be easily understood.

Table 2. Inflow and Outflow of FPI in the Debt Market [12]

Month/Year	2024	2023	2022	2021	2020	2019	Total
January	19837	3531	5194	-2518	-11648	-1301	19837
February	22419	2436	-3073	-6488	2097	-6037	22419
March	13602	-2505	-5632	-6492	-60376	12002	13602
April	-10949	806	-4439	-118	-12552	-5099	-10949
May	8761	3276	-5506	-1706	-22935	1187	8761
June	14955	9178	-1414	-4829	-1545	8319	14955
July	22363	3726	-2056	-782	-2476	9433	22363
August	17960	7733	3845	12144	-3310	11672	17960
September	1299	938	4012	12804	3958	-990	1299
October	-4406	6382	-3532	-1558	1641	3670	-4406
November	1217	14860	-1637	983	-1806	-2358	1217
December	3755	18302	-1673	-11799	4079	-4616	3755
Total	110813	68663	-15911	-10359	-104873	25882	110813

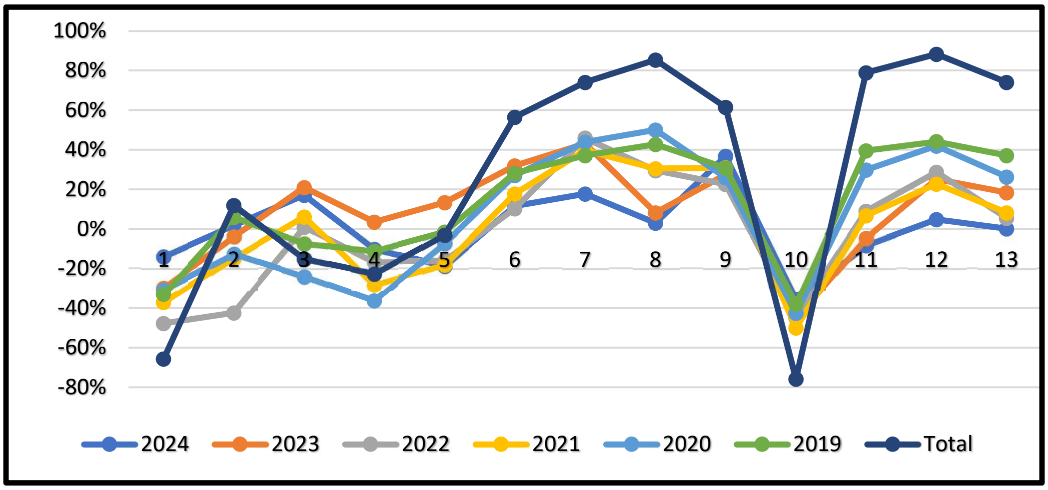

Fig. 2. Inflow and Outflow of FPI in the Debt Market

The analysis of FPI in India's debt market (2019-2024) highlights significant fluctuations influenced by domestic and global factors. FPI inflows varied sharply, driven by macroeconomic conditions, investor sentiment, and policy changes.

Key Trends Observed:

- 2020 experienced heavy outflows due to the COVID-19 pandemic, while 2023 and 2024 indicate recovery and stability.
- US Federal Reserve monetary tightening in 2022 led to a decline in FPI inflows.
- Geopolitical events and India's economic resilience played a significant role in shaping debt market trends.

5 CONCLUSIONS

The analysis of FPI trends in India's equity and debt markets (2019-2024) highlights the complex interplay of global and domestic factors influencing investment flows. While 2020 and 2023 saw strong inflows driven by market corrections and attractive valuations, periods of outflows were linked to geopolitical tensions and monetary tightening, particularly by the US Federal Reserve. This study underscores the importance of macroeconomic stability, the need for investor-friendly policies, and the urgency of addressing structural challenges to sustain FPI inflows. The findings reaffirm that FPI is a barometer of investor sentiment, reflecting India's economic fundamentals and global positioning. To attract and retain foreign investments—crucial for bridging the savings-investment gap and driving economic growth—policymakers must prioritize a stable regulatory environment and implement strategic risk-mitigation measures. A strategic approach to managing risks and leveraging opportunities will reinforce India's position as a preferred destination for foreign portfolio investments.

FUNDING INFORMATION

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

ETHICS STATEMENT

This study did not involve human or animal subjects and, therefore, did not require ethical approval.

STATEMENT OF CONFLICT OF INTERESTS

The authors declare no conflicts of interest related to this study.

REFERENCES

[1] K. Kirabaeva and A. Razin, "Composition of international capital flows," in *Elsevier eBooks*, 2012, pp. 105–119. doi: 10.1016/b978-0-12-397874-5.00019-1.

[2] M. Lang, M. Maffett, J. D. Omartian, and R. Silvers, "Regulatory cooperation and foreign portfolio investment," *Journal of Financial Economics*, vol. 138, no. 1, pp. 138–158, May 2020, doi: 10.1016/j.jfineco.2020.04.016.

[3] Vandana Easwar, Umang Bhalla, Trinley Paldon, "A Comparative Study of Foreign Portfolio Investment and its Effect on Stock Market in India During COVID-19," *Dogo Rangsang Research Journal,* vol. 11, issue 9, no. 1, pp. 5-10, 2021.

[4] K. N. Badhani and A. Kumar, "Market timing skill of foreign portfolio investors in India," *IIMB Management Review*, vol. 32, no. 1, pp. 24–38, Jul. 2019, doi: 10.1016/j.iimb.2019.07.012.

[5] Seetha V, Seethalekshmy C, and Reshma Roy, "Sector Wise Inflow of Foreign Direct Investment in India," *Our Heritage,* vol. 68, no. 30, 2020.

[6] M. Lang, M. Maffett, J. D. Omartian, and R. Silvers, "Regulatory cooperation and foreign portfolio investment," *Journal of Financial Economics*, vol. 138, no. 1, pp. 138–158, May 2020, doi: 10.1016/j.jfineco.2020.04.016.

[7] R. Garg and P. Dua, "Foreign portfolio investment flows to India: Determinants and analysis," *World Development*, vol. 59, pp. 16–28, Feb. 2014, doi: 10.1016/j.worlddev.2014.01.030.

[8] B. M. Ordu-Akkaya and U. Soytas, "Does foreign portfolio investment strengthen stock-commodity markets connection?," *Resources Policy*, vol. 65, p. 101536, Nov. 2019, doi: 10.1016/j.resourpol.2019.101536.

[9] Shweta Singh, Deluwar Hoque, "An Analysis of Trend, Pattern and Strength of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) To India," *Educational Administration: Theory and Practice*, vol. 30, no. 4, pp. 644-650, 2024.

[10] M. Hussain and B. Goswami, "Sector Specific Determinants of Foreign Portfolio investment inflows in India: A Panel ARDL approach," *Global Business Review*, Dec. 2022, doi: 10.1177/09721509221137204.

[11] Kasthuri K, M. Nirmala, "Foreign Portfolio Investment And Macroeconomic Factors In India," *International Journal of Innovative Technology and Exploring Engineering*, vol. 8, issue 12, pp. 2056-2058, 2019, doi: 10.35940/ijitee.L3259.1081219

[12] "FPI Net Investment Details (Calendar Year)," NSDL FPI Monitor. https://www.fpi.nsdl.co.in/Reports/Yearwise.aspx?RptType=6 (accessed Jan. 02, 2025)