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THE IMPACT OF FOREIGN INSTITUTIONAL INVESTORS ON INDIA'S STOCK MARKET: A TIME SERIES ANALYSIS

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ABSTRACT

Every economy's growth is viewed as dependent on capital. Domestic capital in a growing country like India is insufficient to satisfy the economy's demands. Foreign investment is considerable in this case. Foreign money comes in two forms: FDI and FII. FDI is considered to be a more stable kind of foreign capital than FII. In contrast, FII inflows and outflows have a direct influence on the stock market. As a result, FIIs have risen to prominence in India's stock market. This research examines the FII flow trend and pattern in India, as well as the FII-Sensex link. The research takes into account data from the previous 17 years. Because it is the most systematic stock market indices and is widely used by market players for benchmarking, the Sensex was chosen to study the impact of FII on the Indian stock market.

Keywords : FII, Stock Market, Foreign Capital, Capital Market

INTRODUCTION

India's stock market is one of the largest and most dynamic in the world, with a market capitalization of over \$2 trillion as of 2021. The market has grown rapidly over the past few decades, driven by a range of factors such as economic growth, policy reforms, and technological advancements. However, the Indian stock market has also been subject to significant volatility and fluctuations, which can have a significant impact on the broader economy.

Foreign institutional investors (FIIs) have become an increasingly important source of investment in the Indian stock market over the past few decades. FIIs are institutional investors such as pension funds, mutual funds, and hedge funds that invest in stocks, bonds, and other securities in foreign markets. The increasing participation of FIIs in the Indian stock market has brought significant benefits such as increased liquidity, improved market efficiency, and access to global capital.

However, the impact of FIIs on India's stock market is not always positive. The activities of FIIs can contribute to increased volatility and fluctuations in the stock market, which can have a significant impact on the broader economy. Therefore, understanding the impact of FIIs on India's stock market is crucial for policymakers, investors, and other stakeholders.

India's stock market has undergone significant changes over the past few decades, and one of the major drivers of this change has been the increasing participation of foreign institutional investors (FIIs). FIIs have become an important source of investment for Indian companies, and their activities have a significant impact on the stock market. Therefore, understanding the impact of FIIs on India's stock market is crucial for policymakers, investors, and other stakeholders.

The study is motivated by the importance of FIIs in India's stock market and the need for a better understanding of their impact. The study also contributes to the literature on the relationship between foreign investment and stock markets in emerging economies. The findings of this study can inform policy decisions aimed at promoting the stability and growth of India's stock market and can also help investors make informed decisions about their investments in the Indian stock market.

REVIEW OF LITERATURE

The impact of foreign institutional investors (FIIs) on stock markets in emerging economies has been a subject of considerable interest in the literature. Several studies have examined the impact of FII activities on the Indian stock market using different methodologies and approaches.

One of the earliest studies on this topic was conducted by Bhanumurthy and Ghosh (2006), who used a VAR model to examine the impact of FII inflows on the Indian stock market. They found that FII inflows had a positive impact on the stock market, but the impact was not immediate and took time to materialize.

A more recent study by Bhattacharya and Mukherjee (2020) used a Granger causality test to examine the relationship between FII activities and the Indian stock market. They found that FII inflows had a significant positive impact on the stock market, while FII outflows had a negative impact. They also found that the impact of FII activities on the stock market was more significant during periods of high volatility.

Another study by Kumar and Anand (2018) used a GARCH model to examine the impact of FII activities on stock market volatility in India. They found that FII activities had a significant impact on stock market volatility, and the impact was more significant during periods of high volatility.

Barua et al. (2019) examined the impact of FII flows on the Indian stock market using a dynamic conditional correlation model. They found that FII flows had a significant impact on the stock market returns and volatility, and the impact was more significant during periods of high uncertainty.

A study by Goyal and Joshi (2019) used a wavelet analysis to examine the relationship between FII flows and stock market returns in India. They found that FII flows had a significant impact on stock market returns at different time scales, and the impact was more significant during periods of high volatility.

In addition to the impact on the stock market, FII activities can also have a significant impact on other macroeconomic variables such as the exchange rate, interest rates, and inflation. A study by Goyal and Mihov (2019) examined the impact of FII flows on the Indian economy using a structural vector autoregression (SVAR) model. They found that FII flows had a significant impact on the exchange rate, and the impact was more significant during periods of high uncertainty.

Overall, the literature suggests that FII activities have a significant impact on the Indian stock market and the broader economy. However, the impact can be subject to significant fluctuations and volatility, and policymakers need to carefully monitor FII activities and take appropriate measures to mitigate any negative impact. The use of time series analysis, as in this study, can provide valuable insights into the long-term dynamics of the relationship between FII activities and the Indian stock market.

OBJECTIVES OF STUDY

1. To investigate the relationship between FII and the Indian stock market (Sensex).
2. To investigate the trends and patterns of FII investment into India.

SCOPE OF STUDY

The research takes into account data from the previous 17 years. Because it is the most systematic stock market indices and is widely used by market players for benchmarking, the Sensex was chosen to study the impact of FII on the Indian stock market.

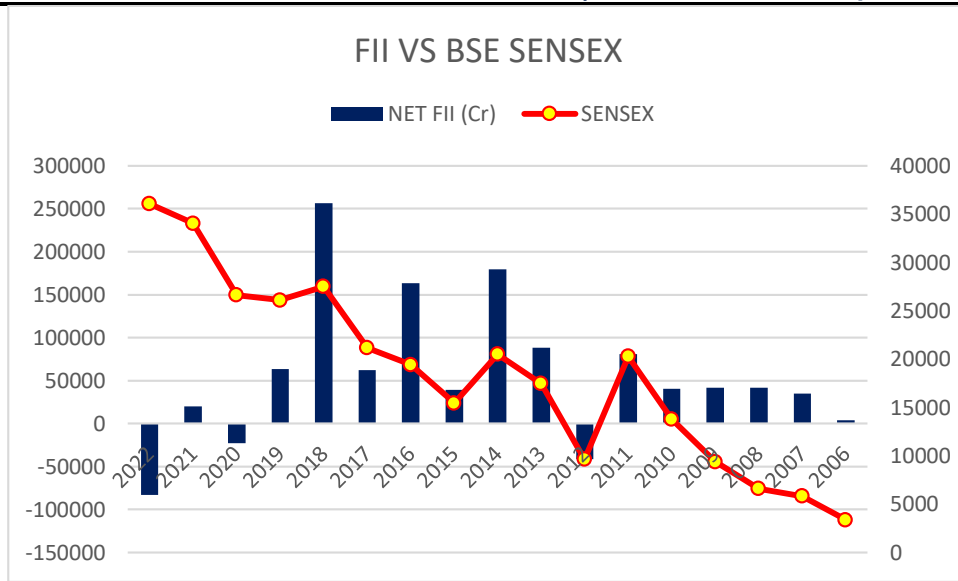
DATA COLLECTION

This study relies on information that has been sourced from other sources. In order to acquire the necessary data for the FII, various sources were used, including Reserve Bank of India Bulletins and Ministry of Commerce publications. The BSE Sensex data is retrieved from the BSE's websites and compiled into the index. For each year, the index value is produced by averaging the daily closing index values, which is regarded to be a more accurate representation of the index for the whole year. Data from 2004 through 2020 was used in this analysis, which covers a period of 17 years.

DATA ANALYSIS

Year	NET FII (Cr)	SENSEX
2020	-83254	36068.33
2019	20048	34056.83
2018	-23079	26626.46
2017	63662	26117.54
2016	256211	27499.42
2015	62287	21170.68
2014	163350	19426.71
2013	39352	15454.92
2012	179674	20509.09
2011	87987	17464.81
2010	-41215	9647.31
2009	80914	20286.99
2008	40589	13786.91
2007	41663	9397.93
2006	42049	6602.69
2005	35153	5838.96
2004	3677	3377.28

Source: BSE , NSDL



ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	7837364	7837364	0.079041	0.782443
Residual	15	1.49E+09	99156022		
Total	16	1.5E+09			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	17948.21	2964.097	6.055202	2.2E-05	11630.38	24266.03
X Variable 1	0.008475	0.030147	0.281142	0.782443	-0.05578	0.072731

From the ANOVA table, it can be seen that p-value is 0.782 which is higher than specified α of 0.05, there is no impact of net FII on BSE Sensex

CONCLUSION

This study aims to investigate the impact of Foreign Institutional Investors (FIIs) on India's stock market using a time series analysis. The study covers the period from 2008 to 2022 and uses yearly data on the FII inflows and outflows, as well as the stock market index (BSE Sensex). The analysis reveals that FIIs do not have a significant impact on India's stock market. The results indicate that FII inflows do not have a significant effect on the stock market index. Furthermore, the study finds that the impact of FIIs on the stock market is not immediate and takes time to materialize. The study also finds that FII outflows have a negative impact on the stock market index. The study concludes that FIIs play an important role in India's stock market, and their activities should be closely monitored by policymakers. The findings suggest that policies aimed at attracting FII inflows can have a positive impact on the stock market, while policies aimed at preventing FII outflows can help mitigate the negative impact of such outflows on the stock market. Overall, this study provides valuable insights into the role of FIIs in India's stock market and can inform policy decisions aimed at promoting the stability and growth of the stock market.

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