The Impact Of Foreign Institutional Investment On Growth Of Stock Market During Pre And Post Reforms In India

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Abstract: India is considered leading country in attracting foreign investment especially in Indian stock market. The Foreign Institutional Investment in the secondary markets was the highest as compared to the last 31 years this was at Rs. 211433 crore in 2021. As well as FII in the primary markets were the highest as compared to the last 10 years, this was at Rs.80309 crore in 2021 and Rs.6371 crore in 2022.despite Covid-19, Indian stock market had the best performing in 2021 but due to the global recession Net inflows for Indian economy was remarkable declined during current financial year in Indian stock market. India has several investment opportunities in its equity market for local and foreign institutional Investors. During new economic policies which introduced in 1991 the government liberalized the economy to attractive global investor on Indian industries as well as Indian stock market in result FII investment have largely points increased in remained positive FII investor in India were -122239 crore in 2021-22. Market capitalization which represents the growth of equity market is 26406501 crore in 2021-22 it was remarkable developments in Indian stock markets and sensex which represents pulses of stock market was 55775 2021-22

Introduction

India is one of the fast growing economies among the other developing countries and targeted to become a 5 trillion emerging economy in future. India is considered leading country in attracting foreign investment especially in Indian stock market. The Foreign Institutional Investment in the secondary markets was the highest as compared to the last 31 years this was at Rs. 211433 crore in 2021. As well as FII in the primary markets were the highest as compared to the last 10 years, this was at Rs.80309 crore in 2021 and Rs.6371 crore in 2022.despite Covid-19, Indian stock market had the best performing in 2021 but due to the global recession Net inflows for Indian economy was remarkable declined during current financial year in Indian stock market. India has several investment opportunities in its equity market for local and foreign institutional Investors. During new economic policies which introduced in 1991 the government liberalized the economy to attractive global investor on Indian industries as well as Indian stock market in result FII investment have largely remained positive FII investor in India were -122239 crore in 2021-22. Market capitalization which represents the growth of equity market is 26406501 crore in 2021-22 it was remarkable developments in Indian stock markets and sensex which represents pulses of stock market was 55775 points increased in 2021-22

Foreign institutional Investment (FII) was given a red carpet welcome. The new industrial policy prepared a specified list of high technology and high investment priority industries wherein automatic permission was given to Foreign Direct Investment up to 51 percent foreign equity. The industries in which automatic approval was granted included a wide range of industrial activities in the capital goods metallurgical industries, electronics, food processing, service sector, etc. The limit of FDI in many areas was subsequently raised from 51 percent to 74 percent and to 100 percent. Presently FDI is permitted up to 100 percent on the automatic route in most sectors subject to sectoral rules/regulations applicable. FDI is prohibited only in 1) atomic energy, 2) lottery business, and 3) gambling and betting.

Industrial policy was further strengthened with Major amendment in the industrial location policy 1997-98. The requirement of obtaining industrial approvals from the central government(except for the industries under compulsory licensing) for establishing units at locations not falling within 25 kms of the periphery of cities having a population of more than 1 million was dispensed with. However, notified industries of a non-polluting nature such as electronics, computer software and printing, may be located within 25 kms of the periphery of cities with more than 1 million populations. Other industries were permitted only if they are located in designated industrial areas set up prior to July 25, 1991. Zoning and land-use regulations as well as Environment Legislation continue to regulate industrial location.

A large part of industrial investment in India is financed by loans from banks and financial institutions. These institutions have followed a mandatory practice of including a convertibility clause in their lending operations for new projects. The new industrial policy made a major change that financial institutions will not impose this mandatory convertibility clause. At changes in respect of industrial licensing, policy foreign investment, foreign technology agreement and MRTP act raise the efficiency and accelerate industrial production. If attract capital technology and managerial expertise from abroad this will raise the availability of such scarce resources in the country on one hand and will improve the level of efficiency of production on the other hand.

PSUs were encouraged to become more competitive. Disinvestment in PSUs bought more liquidity. PSUs were given financial and administrative autonomy through Miniratna and Navaratna and Maharatna status. Government passed competition act to bring in more efficiency

The listing of industries retained for the public sector has been radically pruned opening to public participation. The Electric power generation as well as distribution was opened up for private corporate investment, including FDI investment. Petroleum exploration, hydrocarbon sector, production and refining has also been opened up to the private corporate sector including FDI. The Air transport, until recently was a public sector monopoly, has been opened up to the private corporate sector and also to FDI. The emerging telecommunication sector is also opened for private as well as public.

The amendment to the Foreign Exchange Regulation Act has brought public and private companies incorporated in India are now treated alike. The Capital market was liberalized and government control over capital issues withdrawn the office of the Controller of Capital Issue was abolished. The Securities and Exchange Board of India (SEBI) established to regulate the function of Capital Market, Stock Exchange companies were free to price their equity issues at their own risk and at self-determined premia. The protection of investors was high on agenda of SEBI for which it took many steps and issued many guidelines.

Opening the capital Market to Foreign Investors

Another important policy initiative in 1993 was the opening of the capital market to foreign institutional investors (foreign portfolio investor is the entry of funds into a country where foreigners make purchases in the country's stock and bond markets, sometimes for speculation) (FIIs) and allowing Indian companies to raise capital abroad by issue of equity in the form of global depository receipts (GDRs). Over 500 FIIs are now registered with SEBI, of whom about 150 are active investors, and there has been a cumulative inflow of around $9 billion into the capital market through this route up to the end of 1997-98. The GDR route has also seen an inflow of about $ 6 billion.

Foreign Institutional Investor registered with SEBI in between year of 1993 to 2021

Year	No. of FII
1993	18
1994	158
1995	308
1996	367
1997	439
1998	496
1999	450
2000	506
2001	527
2002	490
2003	502
2004	540
2005	685
2006	882
2007	997
2008	1319
2009	1635
2010	1713
2011	1722
2012	1765
2013	1757
2014	1710
2015	1444
2016	4311
2017	7807
2018	9227
2019	9390
2020	9679
2021	9981

Source: Complied form various issues of annual reports of SEBI

Table presents Foreign Institutional Investor registered with SEBI from 1993 to 2021. There were 18 FII register in SEBI in 1993 to for purchases stock bond in the country, which robustly increased to 9981 in 2021. There was 96 percent growth rate in the period.

Trends in (FPIs) flow to Indian stock market during in pre-reform

Foreign Portfolio Investment (FPI) supplements foreign exchange availability and domestic savings but is not often project specific. Foreign institutional investments in the form of portfolio investments are welcomed by the developing counties as this is non-debt creating. It is expected that FPI leads to improvement in the functioning of the stock markets, which in turn results into increased trading volume and market capitalization as foreign portfolio investors intend to invest on the basis of well-researched strategies and realistic stock valuation. Further, it is believed, foreign institutional flows could help on achieving a higher degree of liquidity at stock markets, to increase price earning (P/E) ratios and consequently to reduce cost of capital for investment. The lower cost of capital and booming stock market can encourage new equity issues. Foreign portfolio investments provide investors with an array of assets with varying degree of risk, return and liquidity. The increased choice of assets and existence of vibrant equity markets provides savers with more liquidity and options. The above in turn results in augmenting households savings directed towards stock markets. The liquid markets can improve the allocations of capital and can enhance prospects for long term economic growth. Generally, FIIs concentrate on secondary markets. A strong secondary market, besides providing liquidity to primary markets, allows the efficient firms to price their new issues at a premium. Moreover, increased competition from foreign institutional investors also paves the way for the derivatives market.

Bombay stock exchange though is one of the oldest stock exchange did not expand rapidly. Even after the independence the market capitalization of companies registered in the BSE raised from 5 per cent of GDP in 1980 to 13 per cent in 1990. However the stock market also remained primitive and poorly regulated.

Indian capital market was confronted with a number of problems, in pre economic reform period. Namely,

1. As of 1992, the Bombay Stock Exchange (BSE) was a monopoly. It was an association of brokers who imposed entry barriers, which led to increased costs of intermediation.
2. Trading took place by 'open outcry' on the trading floor, which was inaccessible to users. It was usual for brokers to charge the investor a much higher price from that actually traded at.
3. Variety of manipulative practices prevailed, so that external users of a market often found themselves at the losing end of price movements. No strict action could be taken against errant brokers.
4. Retail investors, and particularly users of the market outside Mumbai, accessed market liquidity through a chain of intermediaries called 'sub-brokers'. Each sub-broker in the chain introduced a mark-up in the price and the investor thus had to pay a much higher price than the actual trade price.

Trends in Foreign Portfolio Investment flow to Indian stock market during in pre-reform

(In Crores)

Year	Foreign Portfolio Investment	
	Net	Growth
1965-66	2	2
1970-71	3	5
1974-75	-1	4
1978-79	1	5
1986-87	65	70
1990-91	10	80

Source: RBI, Indian Foreign Liabilities Bulletin, September 1996

The table reveals that trends in Foreign Portfolio Investment flow to Indian stock market during in pre-reform. Foreign portfolio investment on stock market was small registered Rs. 2 Crore during 1965-66 and slightly increased to Rs. 3 Crore in 1970-71. The foreign portfolio investment on equity shares, debentures, bonds has negative amount Rs. -1 Crore in 1974-75. Further got substantial increased from Rs. 1 Crore in 1978-79. Rs.65 to 1986-87. The amount of Rs. 10 Crore FPI inflows on Indian stock market during 1990-91. The total Foreign Portfolio Investment on Indian stock market was Rs. Crore 80 Crore during 1965-66 to 1990-91. The FPI were negligible till 1986-87, after which it increased substantially.

Trends in Foreign Portfolio Investment (FIIs) flow to Indian stock market during in post-reform

India opened up her stock market to FIIs in September 1992, by the end of March 2002, four-fifth of FII investments emanated from the USA, UK, and Western Europe. These investments were consistently positive for the first few years, but they turned negative in 1997 due to the Asian Crisis. Thereafter, there are net outflows and net inflows of FII investments. Stock markets in India have become strongly interconnected or interdependent with FII flows. If the FIIs suddenly withdraw funds, the stock market will simply crash or collapse. The FIIs also gave rise to speculative trading. They to minimize risk resort to hedging have fueled bull runs on the Indian stock market.

Trends in Foreign Portfolio Investment flow to Indian stock market during in post-reform

year	FII investment(in crore)
1991-92	10
1992-93	748
1993-94	11188
1994-95	12007
1995-96	9192
1996-97	11758
1997-98	6696
1998-99	-257
1999-00	13112
2000-01	11820

2001-02	9290
2002-03	4504
2003-04	51898
2004-05	41312
2005-06	55357
2006-07	31881
2007-08	110619
2008-09	-65100
2009-10	154000
2010-11	139400
2011-12	93725
2012-13	168364
2013-14	51650
2014-15	277460
2015-16	-18175
2016-17	48411
2017-18	144681
2018-19	-38931
2019-20	-27529
2020-21	211433
2021-22	-122239

Source: SEBI

The table reveals Trends in Foreign Portfolio Investment flow to Indian stock market during the post-reform. Foreign portfolio investment on stock market Rs. 10 Crore in n1991-92 and further substantial increased to Rs 12007 Crore in 1994-95. Then it sharply declined to 9192 Crore in 1995-96. FII investment increased marginally to Rs. 11758 in 1996-97, further it led to negative net investment of Rs. -257 in 1998-99. Afterwards FII increased sharply to 13112 Crore in 1999-00, further it declined to Rs.4504Crore in 2002-03. Since then till2007-08 FII increased to 154000 Crore. But in 2008-09 it fell by -65100 Crore which on account of Global Economic recession. Then the amount of FII in Indian stock market whopped to 139400 Crore on account of recovery of global recession. The foreign portfolio investment on equity shares, debentures, bonds on Indian stock market was declined to Rs.85126 Crore in 2011-12.even during covid 19 situation 211433 crore capital invested by foreign investor on Indian stock market it was remarkable changes in Indian stock market . During 2021-22 there was negative investment -122239 crore it means the amount had withdrawn by stock market by foreign investor.

Conclusion

India has taken several initiatives recently to attract more foreign capital to develop the Indian stock market these initiatives have made it an attractive destination for capital investments on Indian stock market. A series of reforms in capital market has transformed the Indian stock market into a modern one, which is vibrant and more globalized. The increase in the number of Foreign Institutional Investors and Foreign Institutional Investment also reflects the growth in the capital market. Due to the global recession stock market facing hard situation, the FII investment in stock market are negative growth recorded in present year. On the basis of Indian development and economic policies will attract more foreign portfolio investment in proceeding year.

Reference