

## **Portfolio investment**

6.52 Aggregate portfolio investment inflows exhibited a declining trend between 2000-01 and 2002-03. From a net inflow of US\$ 2.6 billion in 2000-01, such inflows declined to US\$ 2.0 billion in 2001-02, and dropped further to US\$0.9 billion in 2002-03. The decline is attributable to a steady fall in portfolio inflows into India, as a result of which the difference between portfolio inflows into India and outflows from India have gradually become smaller, leading to lower levels of aggregate portfolio investment.

6.53 The declining trend of portfolio investment observed during 2000-01 to 2002-03, however, witnessed a sharp reversal in 2003-04. During the first three quarters of 2003-04, net portfolio investment stood at US\$ 7.6 billion with aggregate portfolio inflows at US\$ 17.3 billion. The turnaround from the corresponding period of the previous year (April-December 2002-03), when net portfolio investment was only US\$ 0.4 billion, and aggregate inflows were around US\$5.2 billion, is indeed remarkable. The month-wise statistics compiled by RBI on foreign

investment indicates that total portfolio investment inflows during the year 2003-04 amounted to around US\$ 11.4 billion, which is far higher than around US\$ 1 billion recorded during 2002-03.

6.54 A quarter-wise examination of the BOP data indicates that the first half of 2002-03 witnessed net outflows of portfolio investment. Portfolio inflows began exceeding outflows from the third quarter (i.e. October-December) of 2002-03. The turnaround gained momentum through the remaining three months of 2003-04. The rapid rise in portfolio inflows during 2003-04 has much to do with the buoyant state of domestic capital markets and greater FII participation. FII inflows have been found to be significantly related to the contemporaneous returns from country-specific domestic stock markets vis-à-vis the risks prevailing in other international equity markets. A sharp improvement in domestic market sentiments positively influenced the risk-return payoffs envisaged by portfolio investors about India, leading to an unprecedented expansion of portfolio inflows.