

## **Portfolio investment**

6.60 After a subdued performance in 2002-03, portfolio flows rebounded strongly to US\$11.4 billion in 2003-04. The impressive performance of portfolio investment in 2003-04 was on account of a rapid influx of FII inflows, driven by the heavily bullish sentiments prevailing in the Indian stock markets.

6.61 During the first half of the current year portfolio net inflows dropped sharply to US\$512 million, and were not only much lower than US\$3.5 billion of such inflows in the corresponding period of the previous year, but also a mere 4.5 per cent of the total level of such inflows in 2003-04. The decline in portfolio investment in the first half of the current year is attributable to a sharp reduction in FII inflows during the first quarter (April-June), when net portfolio inflows amounted to only US\$81 million. The volatility noticed in the

Indian stock market in mid-2004, and fresh assessments of risk-return payoffs by international institutional investors in the wake of a rise in US interest rates explain the temporary reversal in the direction of net FII flows during May-July 2004.

6.62 It is noteworthy that while portfolio inflows into India during the first half of 2004-05, at US\$15.4 billion were much higher than the US\$9.3 billion in the first half of 2003-04, such outflows from India at US\$14.8 billion during April-September 2004-05 were also higher than such outflows of US\$5.8 billion in April-September 2003-04, and were, in fact, only about US\$2 billion less than the total outflow of US\$16.8 billion in the whole of 2003-04. With resurrection of bullish trends in the Indian stock market from July 2004, portfolio inflows into India also gathered momentum.