Foreign institutional investment (FII)

6.58 Portfolio flows into India consist of FII flows and resources mobilised by Indian companies through American Depository Receipts (ADRs) and Global Depository Receipts (GDRs). Such flows into India mirror the robustness of capital markets and overall macroeconomic conditions. Portfolio investment picked up steam initially in 1993-94 and later with the deepening of FII flows, shot up rapidly in 2003-04 and 2004-05. In 2005-06, with inflows at US$68.1 billion and outflows at US$55.6 billion, net portfolio inflow was a record high of US$12.5 billion. GDRs/ADRs and others, which are a part of the portfolio flows rose from a level of US$625 million in 2004-05, to reach US$2.6 billion in 2005-06.

6.59 In sharp contrast to the increase in FDI in 2006-07 so far, portfolio investment (net) fell sharply from US$5.4 billion in April-September 2005 to US$1.6 billion in April-September 2006. While portfolio inflows increased by US$21.2 billion (from US$27.5 billion to US$48.7 billion), outflows increased even more by US$25.0 billion (from US$22.1 billion to US$47.1 billion), during the reference period. The sharp decline in portfolio net inflows was more than the increase in FDI (net) to result in a decline in foreign investment inflows between the first half of the previous year and current year.

6.60 FII inflows (net), which had shot up to US$10.9 billion in 2003-04, after remaining strong in the two subsequent years, turned into a net outflow in the first six months of the current financial year. Data on FII (net) for April-November 2006, as released by RBI, report an inflow of US$3.8 billion indicating a subsequent reversal, which may get reflected in the partially revised data of BoP at a later date.