Advances in Economics and Business Management (AEBM)
p-ISSN: 2394-1545; e-ISSN: 2394-1553; Volume 2, Issue 15; October-December, 2015, pp. 1537-1539

http://www.krishisanskriti.org/Publication.html

Impact of Foreign Capital on Indian Economy

R. Sivaram Prasad[1] and G. Lakshmi Vishali[2]

[1,2]Acharya Nagarjuna University Nagarjuna Nagar, Andhra Pradesh

1. INTRODUCTION

In the global arena, Most of the developing countries focusing on the foreign capital for the development in terms of infrastructure, income generation as well as employment creation. In India, FII can able to invest in a company is 49% of paid up capital of a company. Whereas FDI are allowed to invest up to 100% of total paid up capital in a company. India is said to be a green signal for the investors because of the lower cost and means of production. As a result, there will be a growing scope for industrial growth as a result development in economy. Recent survey stated that India stands for second most target for the foreign investors. Foreign Direct Investment (FDI) means investments made in a domestic country by investors residing in another country.FDI causes the long term development of the country through directly investing in various capital resources like shares in a particular industry or company in which stock market is a key role player among them to directly impose affects on country economy. So many researchers, economists, policy makers have been attracted towards FDI for doing research.

2. REVIEW ON LITERATURE

- Antony and Richards,(2002) detected a strong evidence of positive co-relationship with respect to domestic ,US and regional
- equity returns, using data for daily net purchases by foreigners in six Asian emerging equity markets over 1999-2001. But he failed to concentrate on FII impact factors in stock market.
- Stanley Morgan(2002) has examined that FIIs have played an important role in building up India's forex reserves, which have enabled a host of economic reforms and secondly FII s are now important investors in the country's economic growth despite sluggish domestic sentiment. He emphasized only on forex reserves.
- Gordan and Gupta, (2003) found causation running from FII inflows to return in BSE. They observed that FIIs act as market makers and booking their profits by investing when the prices are low and selling them when the prices are high. Hence there are contradictions regarding the casual relationship between FII net inflows and stock market capitalization and returns of BES/NSE. Therefore there is a need to investigate whether FII s are the cause or effect on stock market fluctuations in India.
- Bhanumurthy and Rai,(2003) has studied the determinants of foreign institutional investment in India during 1994-2002.they used monthly data that the equity returns is the main driven force for FII investment and is significant at all levels. They detected the possibility of bi-relationship between FII and the equity returns.
- Roy(2007) he examined the basic motives behind the foreign portfolio capital inflows and found a bidirectional relationship among them.
- Gupta Ambuj (2011) examined the effect of FII on the stock market to cause volatility and found a high degree of relationship between the factors.
- Vikram K.Joshi & Richa Saxena (2011) examined the relation between the FII and the SENSEX .They proved that there is a significant relation between sense and FII. They predicted that a proper balance should be required between FII inflows and outflows to prevent BSE sensex from falling down.
- Jatinder loomba, (2012) conveys that FII s is the strong forces driving the Indian stock market by taking in to consideration, the BSE SENSEX.

3. NEED OF THE STUDY

Developing countries like India require large amount of funds for its growth. India being a developing economy attracts number of foreign countries because of low labor costs and abundant cheap availability of raw materials and tax relaxations. Now a days every investor focusing on the factors which would affect their investments directly or indirectly.

Objectives of the study

- to study the impact of foreign investments on indian economy
- to study the patterns and trends of major sources of foreign investments

4. RESEARCH METHODOLOGY:

A. Sources of data collection

This study is based on secondary data. The required data for this paper is collected from various sources like websites, books, literatures, journals and magazines.

- The current accounts and capital accounts are read from the bulletins of Reserve Bank of India.
- The BSE Sensex and nifty data are collected from bse India and nseindia websites respectively.
- The exchange rates and GDP are taken from the RBI website
- The data reporting FII inflows are taken from the money control website.
- CPI is taken from the data book of PC ministry of finance, RBI.

b. analytical tools& techniques

In order to analyze the data and build up the relation between the variables, the statistical tools such as correlation and multi regression models are used. The coefficient correlation(r) ranges from -1 to+1.the negative sign indicates that the variables are inversely related. That is the increase in one variable proposes the diminishing of the other variable vice versa. The positive value indicates the increase in one variable causes the increase in the other variable. Perfect correlation obtained when there is a complete mutual dependence between the two series. Correlation analysis deals with the association between two or more variables.

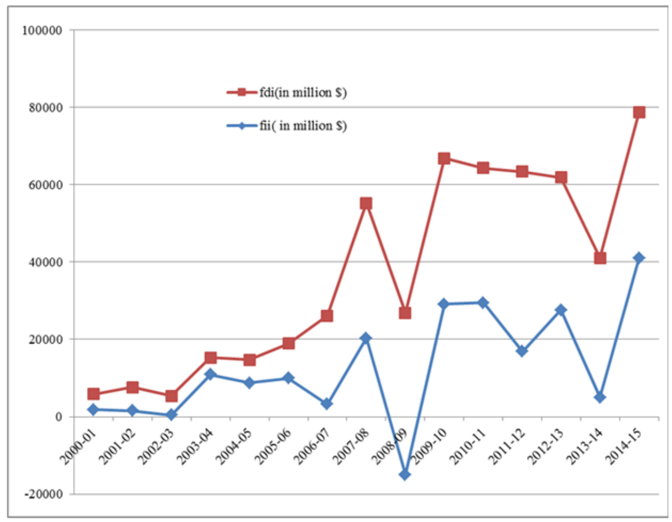
The Karl Pearson's coefficient of correlation is widely used in practice. It is denoted by 'r'. It is a quantitative measure between two variables. In the present study, to study the linear relationship between the FII and the economic growth factors like gdp, inflation, CPI ….we performed the correlation tests are conducted by using Karl Pearson's coefficient of correlation.

5. LIMITATIONS OF THE STUDY

Current study focus on the data avails for the consecutive fifteen financial years. The most volatility investment sources like FII are much affects the country in short run and less impact on long run. Being secondary data, the data suffers from approximation errors. Sometimes even a small correction in values deviate the final result and conclusions.

Table 1: funds flow pattern of FDI &FII

Year	Fii(in million $	Fdi(in million $)	% of fii in fdi
2000-01	1847	4029	45.84
2001-02	1,505	6130	24.55
2002-03	377	5035	7.48
2003-04	10,918	4322	252.61
2004-05	8,686	6051	143.54
2005-06	9,926	8961	110.76
2006-07	3,225	22826	14.12
2007-08	20,328	34843	58.34
2008-09	-15,017	41873	-35.86
2009-10	29,048	37745	76.95
2010-11	29,422	34847	84.43
2011-12	16,812	46556	36.11
2012-13	27,582	34298	80.41
2013-14	5,010	36046	13.89
2014-15	40,923	37758	108.38



FII &FDI flows are seemed to be a positive trend except in 2002 and 2008.2008 is said to be the black year in the history of globe as it resembles the global recession fear across all the global exchanges, poor international sentiments. It spreads over all the world markets as a result, most of the sources of foreign funds are getting back from India.

6. DATA ANALYSIS AND INTERPRETATION

Correlation matrix **of FII&FDI** with economic growth indicators

Variables	fii(in million $)	fdi(in million $)	gdp	bse sensex	cpi	interest rates	exchange rates
Fii (in million $)	1	0.40	0.50	0.63	0.54	-0.52	0.20
Fdi (in million $)	0.40	1	0.19	0.90	0.90	-0.19	0.23
Gdp	0.50	0.19	1				
BSE sensex	0.63	0.90	0.38	1	0.96	-0.44	0.41
Cpi	0.54	0.90	0.25	0.96	1	-0.43	0.50

interest rates	-0.52	-0.19	-0.41	-0.44	-0.43	1	-0.39
exchange rates	0.20	0.23	0.04	0.41	0.50	0.15	1

p-values:							
Variables	**fii(in million $)**	**fdi(in million $)**	**gdp**	**bse sensex**	**Cpi**	**interest rates**	**exchange rates**
fii(in million $)	**0**	0.134	0.054	**0.011**	**0.037**	**0.043**	0.091
fdi(in million $)	0.134	**0**	0.490	**< 0.0001**	**< 0.0001**	0.477	0.065
Gdp	0.054	0.490	**0**	0.156	0.369	0.121	0.450
bse sensex	**0.011**	**< 0.0001**	0.156	**0**	**< 0.0001**	0.096	**0.010**
Cpi	**0.037**	**< 0.0001**	0.369	**< 0.0001**	**0**	0.104	**0.003**
interest rates	**0.043**	0.477	0.121	0.096	0.104	**0**	0.146
exchange rates	0.091	0.065	0.450	**0.010**	**0.003**	0.146	**0**
Values in bold are different from 0 with a significance level alpha=0.05							

7. FINDINGS &SUGGESTIONS

From the above study, it is evident that FDI has a positive effect on BSE sensex. There exists a positive correlation between &sensex and FDI&CPI.FII also has a positive effect on BSE sensex and they are positively correlated. FII also possess comparable effect on GDP. FDI being considered to be long term sources of funds will have a positive impact on the industrial growth of the country as a means for growth in employment and had an impact on CPI. FII is considered to be hot money as they create profits and with draw their investments from the stock markets whenever they observed a negative return on their investments. They witness for the volatility in stock markets due to their investments and withdrawals. Hence, from the above results, it can be conclude that flow of foreign capital especially FDI &FII have affect on economic growth of india.

8. CONCLUSIONS

FII s showing much impact on bse sensex,cpi and on interest rates. FII and interest rates have strong negative relationship during the study. CPI is affected by both FDI and FII. Among the two, it is better to express that CPI is more affected by FDI. By taking into consideration, the p-values in analysis, we can strictly accept that there will be a strong relation between FII and bse sensex, cpi and interst rates. As we early discussed, interest rates is negatively correlated with FII. As the foreign capital inflow grows, the rate of interest that offered by the RBI to banks will diminish.

REFERENCES

[1] **Rajesh chakraborty** (2001) "FII Flows to India: Nature and Causes", Journal of stock market volatility, vol: 34. Publisher: MCB UP ltd

[2] **Kumar (2002),** "Foreign Institutional Investors and Stock Market Volatility". The Indian Journal of Commerce. Vol.54, no.3, July-September, 2002.

[3] **Narayan Sethi** (2007), Globalization, Capital flows and the growth in India, Journal of ICFAI, Vol:25. Publisher: MCB UP Ltd.

[4] **N. Bhanumurthy** (2004), Role of return, risk and Inflation as determinants of foreign institutional investors. Vol.17, publisher: Emerald Group Publishing Ltd.

[5] **Trivedi and Nair** (2005),"Recent Volatility in stock markets in India and foreign institutional investors."

[6] **A Kulwanthraj N.Bindu** (2004) "a study on the determinants of foreign institutional investments in India and the role of risk, inflation and return "Indian economic review, vol.32

[7] **Dr. K.Mallikharjuna Rao, H.Ranjeeta Rani** (2013)"impact of foreign institutional investments on Indian capital market International Journal of Marketing, Financial Services & Management Research

[8] ISSN 2277- 3622 Vol.2, No. 6, June (2013)

[9] **Agarwal, Chakrabarti and Nair** (2003), "determinants of FII investment inflow to India" money and finance in the Indian Economy, Indira Gandhi Institute of Development research, Jan2003.

[10] **Siva kumar S** (2003) FII Bane of Boon. Journal of stock market volatility, vol.34.

[11] **Stanely Morgan**(2002) "FII influence on stock market, journal of impact on Institutional Investors".vol.17

[12] **Dr. Vinod K. Bhatnagar**(2011)" foreign institutional investors(FIIs) investment in India: a trend analysis of monthly inflows" international journal of research in commerce &management .vol.2(2011)

Websites

[1] www.sebi.gov.in

[2] www.rbi.org.in

[3] www.ijrcm.org.in

[4] www.ijrcm.org.in

[5] www.nseindia.com

[6] www.moneycontrol.com

[7] www.cdslindia.com

[8] www.planningcommission.org

[9] www.businessstandard.com