Preface

The recent wave of financial globalization and its aftermath has been marked by a surge in international capital flows among the industrial and developing countries, where the notions of tense capital flows have been associated with high growth rates in some developing countries. International capital flows have particularly become prominent after the advent of globalization that has led to widespread implementation of liberalization programs and financial reforms in various countries across the globe in 1990’s. International capital flows have significant potential benefits for the developing countries around the world. Countries with sound macroeconomic policies and well-functioning institutions reap the benefits of capital flows and create conditions for more intensive economic growth and minimize the risk.

Capital inflow includes Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), External Commercial Borrowing (ECBs), NRI Deposits and Social Deposits Schemes. Capital flows contribute in filling the resource gap in countries where domestic savings are inadequate to finance investment. Capital inflows allow the recipient country to invest and consume more than it produces when the marginal productivity of capital within its borders is higher than in the capital-rich regions of the world.

Many developments have taken place in the Indian capital Market since inception of financial liberalization. With the advent of liberalization, Indian capital Market has gone under tremendous changes. Prior to liberalization, the Indian Capital Market is not in the global picture. But today, it is one of the most attractive destination for foreign portfolio investment (FPI). With the ongoing globalization the role and inflow of foreign portfolio investors has increased to a great extent. The developing countries generally have a continuous shortage of capital. The entry of Foreign portfolio investors is expected to bring that much needed capital. However, most of the purchases by Foreign portfolio investors in secondary market, their direct contribution may not be very significant. Yet, FPI contribute indirectly in a number of ways towards increasing capital formation in the host country. Increased participation of foreign investors increases the potentially available capital for investment and thus lowers the cost of capital. Further, purchases of Foreign portfolio investors give an upward thrust to domestic stock prices and thus increase the price-earnings ratio of firms. Both these factors are expected to increase overall level of investment in
an economy. Thus, FPI can prove to be an important boost for capital formation. This is one of the most important sources of Foreign Exchange Reserves (FOREX).

Foreign portfolio investment is much unstable compared to other capital flows, therefore careful monitoring of these inflows should be maintained. Foreign Portfolio Investments are the pivot of the Indian capital market. But, at the same time there is unease over the volatility in foreign portfolio investment flows and its impact on the different segments of the economy. The increase in the volume of foreign portfolio investment (FPI) inflows in recent time has led to concerns regarding the volatility of these flows, threat of capital flight, its impact on the capital markets.

Over the last few years, Securities Exchange Board of India (SEBI) has announced several long reaching reforms to promote the Indian capital Market and protect investor’s interests. Reforms in the secondary markets have focused on three main areas: structure and functioning of Indian stock exchanges, automation of trading and post trade system, and introduction of surveillance and monitoring system.

The Securities Exchange Board of India (SEBI) has taken several measures to improve the integrity of the Indian capital market. Legislative and regulatory changes have facilitated the corporatization of stockbrokers. Capital adequacy norms have been prescribed and are being enforced. A market to market margin and intraday trading limit also been imposed. Initially the entry of Foreign portfolio investment in Indian capital market was not very easy but from economic liberalization it becomes easy. The investment limit and investment areas have been increased for Foreign portfolio investments.