

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2419
ANSWERED ON:18.03.2005
FILS INVESTMENT IN INDIAN EQUITY
Paswan Shri Sukdeo;Yadav Shri Ram Kripal

Will the Minister of FINANCE be pleased to state:

- (a) whether the Foreign Institutional Investors (FIIs) rush to invest in Indian equity, when dollar goes weak against rupee and keep away if rupee goes weak against dollar;
- (b) whether this practice is good for Indian economy;
- (c) if so, the reasons therefor; and
- (d) the steps proposed to be taken to save the country's economy?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM):

(a) to (c) The empirical analysis indicates that India has experienced positive net flows in every year since 1993-94, except in 1998-99. During the last 4-5 years the FIIs flows into India have been less volatile compared to other emerging markets. This behaviour of FIIs inflows could be attributed to several factors, such as, continued reforms in the financial sector, strong economic fundamentals, improved prudential regulatory standards, attractive valuations of companies and exchange rate behaviour. According to the information furnished by the Securities and Exchange Board of India, the data for FII net investments vis-a-vis rupee dollar exchange rate over the last two years on a monthly basis does not seem to suggest a consistent relationship between FIIs investments and movement in rupee dollar exchange rate. There are prudential investment limits on FIIs' investment in spot and derivatives markets. Further, the total investment by FIIs in both spot and derivatives markets in calendar year 2004 was only 5.83 per cent of the overall equity market turnover.

(d) In view of the reply to parts (a) to (c) above, does not arise.