GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1830
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WITHDRAWAL OF CAPITAL FROM THE MARKET
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Will the Minister of FINANCE be pleased to state:

(a) the amount in rupees withdrawn by the Foreign Institutional Investors (FIIs) from the Indian capital market during the period from April to July, 2013;

(b) the amount of foreign capital invested in the Indian capital market during the same period;

(c) the reasons for the outflow of large amount of foreign capital during the same period along with reaction of the Government thereto; and

(d) the remedial steps taken/proposed to be taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a): & (b): The details of investments made by FIIs (equity and debt) from April 2013 to July 2013 is as follows:

(INR Crore)

Month	Gross Purchases	Gross Sales	Net Investment
April 2013	86,203	75,455	10,748
May 2013	101,674	73,536	28,138
June 2013	66,998	111,160	-44,162
July 2013	75,348	93,472	-18,124
Total	330,223	353,623	-23,400

It may be seen from the above that FIIs have made positive net investments in Indian securities market during April and May 2013. However, their investments turned negative during June and July 2013.

(c): Investment by foreign investors in securities market is dependent on their perception of several factors including the macro-economic environment, corporate performance, domestic and international events that have a bearing on the markets and sentiments.

The recent outflows of FIIs from the domestic market was triggered by the global bond sell-offs on US Fed signals that raised the prospects of interest rates hardening in the USA and increase in bond yields in the USA leading to a withdrawal of capital from Emerging Market economies (EMEs).

(d): Government has been making concerted efforts to attract greater foreign investment into India with special thrust on availability of off-shore funds for infrastructure development. Some of the important steps include:

i. Rationalization of debt limits : From April 2013, the framework of FII debt limits has been simplified/rationalized by merging various sub limits and creating two principal categories of debt namely G-Secs & Corporate bonds with no lock in & residual maturity restriction.

ii. Enhancement in Foreign Investments limits in G-Sec− With effect from June 12, 2013, the investment limits for long term offshore investors in Government Securities has been enhanced by USD 5 billion taking the total limit to USD 30 Billion.

iii. Corporate Debt limit put on tap − Beginning April 01, 2013, FIIs have been allowed to invest in Corporate Debt without purchasing debt limits till the overall investment reaches 90% after which the auction mechanism would be initiated for allocation of the remaining limits.

iv. Reduction in debt utilization period − In order to ensure that the unutilized debt limits are put up for auction without delay, FIIs/ QFIs have been permitted to utilize the debt limits allocated to them in each monthly auction till the 17th day of the succeeding month. Any unutilized limit as on the 18th of each month would get auctioned on 20th of that month.

v. Steps envisaged in Budget 2013-14: In the Budget 2013-14, various measures have been envisaged to encourage offshore investors by facilitating foreign portfolio investment through:

Registration of portfolio investors by designated depository participants authorized by SEBI.

Permission to FIIs to use investments in Corporate bonds and Government securities as collateral to meet margin requirements.

Lower withholding tax at the rate of 5% for investment made in Corporate Bonds/ G-Secs.

Introduction of simplified procedures and prescription of uniform registration and other norms for foreign portfolio investors by SEBI, with risk-based approach to KYC.