IMPACT OF FOREIGN DIRECT INVESTMENTS (FDIS) AND FOREIGN INSTITUTIONAL INVESTMENT (FIIS) ON STOCK INDICES RETURNS OF INDIAN STOCK MARKET

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ABSTRACT

This paper investigates the causal relationship between the inflow of Foreign Direct Investments (FDIs) and Foreign Institutional Investments (FIIs) and stock indices returns of India. The present study employed the data of FDIs and FIIs inflow and daily returns of BSE Sensex and NSE CNX Nifty index. Statistical tools like Descriptive Statistics, Unit Root, Correlation Matrix, OLS regression Test and Granger Causality Test were employed. This study found that FIIs did have significant and positive impact on the returns of BSE Sensex and NSE CNX Nifty whereas, FDI inflows exerted negative impact on the returns of BSE Sensex and NSE CNX Nifty during the study period. This study found that apart from the FDI & FII inflows, many other macro-economic factors also affected the stock indices returns. The findings of this study would help the retail investors in making investment decision rationally, based on inflow of FDIs and FFIIs.

Keywords*: Foreign Direct Investment (FDI), Foreign Institutional Investment (FII), Stock Indices Return*

1. INTRODUCTION

The foreign investment influx refers to the transfer of funds from one country to another, with the prime goal of investing on the development projects. Such funds could be used for purchasing of assets, establishing a new business, or purchasing of an existing business or infrastructure. The foreign countries, which are rich enough, may transfer their funds to other needy countries in the form of FDI and FII. FDI is a corporation or individual of one country for making investments directly in a business of another country (Jayachandran et al, 2010).

The purpose of FDI is to take up ownership, joint ventures, or mergers and acquisitions, establish a long-term interest and control over the foreign company. FII is an investment of fund, which makes the investments in countries other than its registered office or its headquarters (Amjad et al, 2013). The inflow of foreign investment has substantial impact on a country's economy in the form of more employment and greater economic growth, by providing the opportunity for innovation (Haque Noinul et al, 2015).

The inflows of fund may come from different sources from abroad such as governments, businesses, and individuals belonging to foreign countries. The economic growth, economic healthiness and economic attractiveness of a country are assessed, based on the volume of foreign investment inflow of a country (Ahmad Mir et al, 2014). India is a popular destination for FDIs and FIIs and there is positive relationship between economic growth and stock market development.

Many empirical studies proved that FDIs and FIIs are the important sources of capital for host countries as they are associated with new job opportunities and enhancement of technology transfer, and overall higher economic growth in host countries (Johnson Andreas 2006; Rahul Dhiman 2013; Nicholas Apergis et al, 2016).