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FPI Flow: India visa vis Globe

Indian economy remains a favored place for investment as has been reflected by strong FPI flows in the past few months. This is likely against the backdrop of stable government polices, robust macro fundamentals, stable inflation and sustainable growth rates. On the other hand, global economies have been witnessing challenges of slower growth, elevated inflation, fears of recession and rate hike cycle by Central Banks. In terms of steady growth, China's economy has also hit some breaks, pushing investors to rely on other countries for better returns. Countries such as India, Japan and South Korea have made most of the gains compared with global counterparts, especially in equity markets.

Global market trends and macro updates have influenced the global movement of FPI flows. Compared with other countries, India has registered an FII inflow (equity) of US$ 12.2bn for the quarter ended 30 Jun 2023. On the other hand, countries such as South Korea, Taiwan and Indonesia have received far less inflows compared with India. Notably, US and Thailand have seen FPI moving out of their respective countries. However, it is interesting to note that Japan has received a strong FPI inflow to the tune of US$ 66bn.

For Debt flows, US, Japan and South Korea outshines other countries in the fray. India has relatively low debt inflow in comparison with other countries, though it still remains more than Indonesia, Malaysia and Thailand. The uncertainty of not been included in MSCI index has also pushed debt flows farther away.

Table 1: FII Flows across countries-Quarter Till Date (QTD)

Countries	Equity (US$ mn)	Debt (US$ mn)
India	12,204	1607
Indonesia	645	981
Japan	66,074	11,935
Malaysia	-506	465
S. Korea	292	31,107
Taiwan	3,277	
China*	48,189	-21,158
Thailand	-1461	-178
US**	-15,318	1,12,950

Source: Bloomberg, Bank of Baroda | QTD as of Apr-Jun' 2023 Note * For china, date as of 31 Mar 2023. ** For US, date as of 30 Apr 2023

Reasons behind such strong FII flows:

- India's Q4FY23 GDP surprised positively and RBI had retained its growth projection of 6.5% for FY24. Resilience in domestic macro fundamentals has made it attractive to invest and be part of the growth story.

- Global economy on the other hand has been witnessing slowdown concerns with IMF projecting global growth to moderate to 2.8% in CY23 (3.4% in CY22). Expectation of soft landing in US instead of recession seems more likely, amidst high inflation and rate hike cycle.
- Investors believe the post Covid-recovery in China has been a temporary one and the recovery has lost some momentum making the foreign investors jittery in terms of investing in China. This in turn might divert FII flows towards other countries and benefit them. Japan has benefited from this narrative with investors reaping in high returns along with steady FII flows.

In the table 2, mentioned below, certain global stock indices have gained double digit return from Mar'23 to Jun'23. Amongst these the biggest jump has been registered in Nikkei followed by Russia and Sensex. Indian equity continue to outperform other emerging economies on the back of strong optimism surround India's growth story, signs of traction in domestic demand, supported by benign oil prices. Additionally, robust financial markets coupled with better IPO returns and conducive environment will attract more FII flows in to the country.

Table 2: Change in global markets since Mar'23 over Jun'23

Global Indices	% change since Mar'23
Dow Jones	3.4
FTSE	-1.3
Nikkei	18.4
Hang Seng	-7.3
Sensex	9.7
Thailand	-6.6
South Korea	3.5
Russia	14.1
Indonesia	-2.1

Source: Bloomberg, Bank of Baroda

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