

First Time in 11 Years

First time in 11 years, FIIs turn net sellers; pull out \$13 billion

FII sales of Indian stocks accelerated, especially after a series of financial failures in the US

Foreign institutional investors, or FIIs, the key drivers of the Indian stock market in the past few years, pulled out at least \$13 billion (about Rs62,880 crore) in 2008, the most in 15 years, after an unprecedented global credit crunch led to a flight of capital from emerging markets. This is also the first time in 11 years that there has been a net outflow of FII money from India, seeing this it's hard to say that there will be FII inflows in 2009, as they expect foreign investors to continue to be averse to risk, though some might see India as a major pick among emerging economies.

FIIs have invested a net \$50.59 billion in Indian equities since Sebi opened up the stock markets to them in 1993. At the height of the Bull Run at the beginning of 2008, FII inflows had increased to about \$140 billion, pushing the Sensex, India's most tracked index, to a record 21,206.77 points on 10 January. But FIIs started withdrawing heavily from India in the wake of the global credit crunch and economic slowdown, dragging down the stock markets as well. As a result, the portfolio of FIIs has shrunk to about \$70-80 billion.

FII sales of Indian stocks accelerated, especially after a series of financial failures in the US—investment bank Lehman Brothers Holdings Inc. declared bankruptcy in mid-September, Merrill Lynch and Co. was sold to Bank of America Corp., and the US government had to take over insurer American International Group Inc. a week after it took over the country's largest mortgage lenders Freddie Mac and Fannie Mae. FIIs have been selling mainly because their lenders, facing a cash crunch in home markets, asked the investors to bring back the money.

"The general environment is not conducive and institutional investors wanted to pare down risk due to the global meltdown". You can't expect them to return in a very big way. It will probably take at least a year for confidence to come back." Domestic institutional investors such as mutual funds, banks and insurance companies more than made up for most of the FII outflows, in absolute terms at least, pumping in more than \$16 billion this year. But they haven't been able to boost the markets.

The Sensex has fallen 52% so far in 2008. In 2007, FIIs put in \$17.3 billion worth of funds into Indian equities and the Sensex gained 47%. As India has lower dependence on exports to us and Europe India had low exposure to the global economic slowdown. While India faces "fiscal constraints, it is less exposed to the global economic slowdown, having a below Asian average weighting towards cyclical sectors. Lower oil prices, leading to a narrowing of the current account deficit and lower inflation pressures compared to 2008.

"On a relative basis, India might be better than other emerging markets since it is less dependent on trade with the US and EU (European Union).

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