Trends in portfolio investment statistics – India

Agam Prakash Gaur[1]

Introduction

This paper reviews portfolio investment statistics (inflows/outflows) relating to India, and their dissemination through various publications, as well as initiatives aimed at collecting portfolio data for statistical purposes.

The Reserve Bank of India (RBI) serves as the source for information on various components of foreign investments, with data compiled using the Foreign Exchange Transactions Electronic Reporting System (FETERS) and supported by information provided by custodians regarding flows into the accounts of foreign institutional investors. Foreign investment data are released by the RBI on a monthly basis, along with component details (Global Depository Receipts (GDRs)/American Depository Receipts (ADRs), foreign institutional investors (FIIs), offshore funds, etc).

International investment position (IIP) data are compiled at end-March/end-quarter on individual countries' stocks of international assets and liabilities. Net portfolio investments through financial instruments (equity and debt) constitute part of the statement. Under SDDS, data on IIPs, disseminated on an annual basis prior to March 2006, are now being disseminated on a quarterly basis (as of June 2006) through RBI press releases.

India has been participating in the Coordinated Portfolio Investment Survey (CPIS) since 2004 for mandatory items, providing the 31 December position for resident entities, and also covering securities (equity, short/long-term debt). The information is collected from end-investors, which include banks, mutual funds, insurance companies, asset management companies and non-financial companies. Separate surveys are conducted for the banking sector and for these other entities.

International Banking Statistics (IBS), both locational and consolidated, have been collected from banks on a quarterly basis since December 1999, covering international assets and liabilities of banks, along with currency and sectoral breakdowns. India is participating in the IBS system of the Bank for International Settlements (BIS), and data are incorporated in consolidated information, released by the BIS since the quarter ending in March 2001.

A process is being developed to unify data collection for banks through the IBS system, so that BIS, CPIS and other statistics on components of portfolio investments can be used in compiling figures on IIPs and external debt.

1. Portfolio investment includes international investments in equity and debt securities issued by unrelated non-resident entities, excluding any instruments classified as direct investments or reserve assets. Portfolio managers set aside a proportion of their funds for investments in developing markets based on risk/return assessment, and also as part of their portfolio diversification strategy. With the opening of the economy and efforts to integrate with global markets in order to attract funds, India has introduced various liberalisation measures in the fiscal, financial, trade and external sectors.

[1] Reserve Bank of India, DESACS, C-9, 6th Floor, Bandra-Kurla Complex, Bandra (East), Mumbai – 400051, India. E-mail: apgaur@rbi.org.in. The views expressed in this paper are those of the author and do not necessarily represent the views of the institution to which the author belongs.

2. The Indian economy entered a new era with the introduction, in 1990–91, of stabilisation measures and structural reforms aimed at liberalising trade and opening up the economy. That year witnessed an external payments crisis due to unsustainable macroeconomic balances with very low foreign exchange reserves. Extensive decontrol and delicensing were put in place to create a competitive environment and unleash the productive potential of entrepreneurs, thus putting the economy on a path to higher growth. The objective was to improve the BOP at sustainable levels by liberalising international trade, finance and capital inflows, and by instituting an appropriate exchange regime. In 1994, India accepted the IMF's Article VIII, and the rupee thus became officially convertible on the current account.

3. The economy has been on a high growth trajectory, with average growth of 6.4% from 2000–01 to 2005–06, 7.5% in 2004–05 and 8.4% in 2005–06. The flow of funds has produced comfortable foreign currency asset positions: US$ 145.1 billion in March 2006, rising by US$ 46.8 billion to US$ 191.9 billion as of March 2007.

4. Against the backdrop of continuing integration with the global economy through liberalisation measures, global best practices have been adopted in various sectors of the economy. The Indian financial market was opened up to FIIs in 1992. Foreign funds flows for equity investment through exchanges were attributable to FIIs – including pension funds, mutual funds, asset management companies, investment trusts and institutional portfolio managers registered with the Securities and Exchange Board of India (SEBI). The flow of information to the RBI occurs through custodians. FIIs were allowed to participate in both primary and secondary markets.

5. Portfolio investment includes flows through issuance of ADRs or GDRs, which usually denote ownership of equity and investment by FIIs, offshore funds and others, thus covering the liabilities under portfolio investments.

6. The RBI is the basic source for information on various components of foreign investment. Foreign portfolio investment is compiled by the RBI using FETERS as the principal information source. The RBI also obtains information separately from custodians on a weekly basis, providing the details of flows into/out of the accounts of FIIs. These different components are compiled and consolidated to obtain data on aggregate foreign investment in India. Foreign investments are compiled and presented in US dollars. The RBI publishes foreign investment data on a monthly basis in the RBI Bulletin, which, inter alia, provides component details of portfolio investments (GDRs/ADRs, FIIs, offshore funds, etc).

7. Data on portfolio investment flows published in the March 2007 RBI Bulletin are presented in Table 1, indicating annual investment inflows.

8. The IIP compiled at the end of a specific period (end-March or end of quarter) is a statement of a country's stock of external financial assets and liabilities, including, inter alia, portfolio investment (equity securities and debt securities). Financial assets consist of claims on non-residents, and liabilities include the country's financial liabilities to non-residents. Under SDDS, data on IIPs that, prior to March 2006, were disseminated on an annual basis, are now (as of June 2006) being released as an RBI press release on a quarterly basis, with a two-quarter lag. Data relating to June and September 2006 were released on 24 January and 23 March 2007, respectively. An RBI press release dated 23 March 2007, and available on the RBI website, is the source of the data. Data on the overall international investment position, indicating assets and liabilities, are presented in Table 2.

The significant feature was that net international investment liabilities increased by 14.4% to US$ 47.8 billion from March 2005 to March 2006, and moderated to US$ 45.9 billion in September 2006. On the liabilities side of the IIP, portfolio investment accounted for more than one fourth of total liabilities, whereas on the assets side portfolio investments represented less than 1% of net international assets.

Table 1

Foreign investment inflows

Millions of US dollars

Year	Portfolio investment (a + b + c)	Items			Portfolio and direct investment	% share of		
		a	b	c		col 2 to col 6	col 3 to col 2	col 4 to col 2
		GDRs/ ADRs[1]	FIIs[2]	Offshore funds and others				
1	2	3	4	5	6	7	8	9
1995–96	2,748	683	2,009	56	4,892	56.2	24.9	73.1
1998–99	–61	270	–390	59	2,401	–	–	–
2003–04	11,377	459	10,918	–	15,699	72.5	4.0	96.0
2004–05	9,315	613	8,686	16	15,366	60.6	6.6	93.2
2005–06 (P)	12,492	2,552	9,926	14	20,214	61.8	20.4	79.5

– Indicates outflow.

[1] Represents the amount raised by Indian corporates through GDRs and ADRS. [2] Represents inflow of funds (net) by FIIs.

Source: RBI Bulletin, March 2007.

Table 2

Overall IIP

In billions of US dollars

Period	March 05	March 06	June 06	September 06
	(PR)	(PR)	(PR)	(P)
Net IIP	–41.82	–47.83	–46.44	–45.89
A. Assets	168.21	183.45	191.81	199.86
Including portfolio investment:	0.81	1.29	1.08	1.19
(i) Equity securities	0.4	0.65	0.49	0.54
(ii) Debt securities	0.41	0.64	0.59	0.65
B. Liabilities	210.03	231.28	238.25	245.75
Including portfolio investment:	55.69	64.62	64.82	67.37
(i) Equity securities	43.16	54.74	52.47	54.78
(ii) Debt securities	12.53	9.88	12.35	12.59

Note: PR = partially revised; P = provisional.

[The figures in the table have been compiled on the basis of IIP estimates presented in millions of US dollars.]

Source: RBI Press Release, 23 March 2007.

9. FIIs are from geographically dispersed countries: Malaysia, Australia, Saudi Arabia, Trinidad and Tobago, Denmark, Italy, Belgium, Canada, Sweden, Ireland, etc. Institutions around the globe channelled funds to the Indian securities markets for investments. As of 31 March 2006, the SEBI had registered FIIs from 37 countries. The number of FIIs from the United States was the highest at 342, followed by the United Kingdom (148), Luxembourg (64), Singapore (47), Hong Kong (30), Canada (26), Australia, Ireland and the Netherlands with 23 each, Mauritius (32), etc. Long-term institutional investors such as foreign pension funds continued to show interest in Indian securities markets. Other categories of FIIs registered with the SEBI included traditional institutions such as mutual funds, investment trusts, managers of such funds, and banks. The total number of sub-accounts registered with the SEBI also increased – from 1,889 as of 31 March 2005 to 2,488 by end-March 2006. The increasing confidence of FIIs in the Indian stock market emerged as a major factor, adding to strong macroeconomic fundamentals (increasing economic growth, comfortable forex reserves, buoyancy in corporate sector earnings, etc), a transparent regulatory system, abolition of the long-term capital gains tax, etc. Limits have been set for FIIs' investments in government securities and corporate bonds. They are permitted to trade in derivatives in order to manage risk and return.

Concern has been raised regarding some unregulated entities taking positions in the stock market through participatory notes (PNs) issued by FIIs. The concern regards the sale by the original investors, of PNs issued by FIIs, to other players, many of whom are investing through the "Benami" route – ie disguising the identity of the ultimate beneficiary. Thus, in January 2004 it was stipulated that PNs are not to be issued to any non-regulated entity, and the "know your client" principle is to be strictly observed.

Table 3

Gross purchases/sales by FIIs

Millions of US dollars

Total	Gross purchases	Gross sales	Net investment	Cumulative net investment at monthly exchange rate
(1)	(2)	(3)	(4)	(5)
1993–94	1,783	149	1,634	1,638
1998–99	3,927	4,313	–386	8,898
2003–04	31,494	21,545	9,950	25,755
2005–06	78,086	68,754	9,332	45,259

Source: SEBI.

10. Coordinated portfolio investment statistics (assets): As a step towards globalisation and towards integration of the Indian economy with the world market, the corporates are expanding their business, at the same time acquiring overseas assets, improving their competitiveness in the overseas markets, and increasing outward capital flows – a reflection of increased development. Acquisitions are being funded through a variety of sources: withdrawal of foreign exchange from India, capitalisation of exports, balances held in EEFC, share swaps – ECBs/FCCBs, ADRs/GDRs, etc – with major destinations being the United States, Europe, Mauritius and the Cayman Islands. Substantial investment takes place through SPVs set up for the purpose of investing abroad. Existing WOSs/JVs and SPVs are being used to fund acquisitions through the LBO route, and such transactions are not

captured in overseas investment statistics. Appropriate measures should be adopted to incorporate data on overseas remittances – taking into account innovative funding structures, timeliness, etc – in the system for compiling BOP data.

The limit on mutual funds' overseas portfolio investments in equity and debt securities is being increased to US$ 4 billion from the current US$ 3 billion, allowing for an increase in the scale of operations. The limit on individuals' investments in overseas instruments such as equities, mutual funds, private equity funds and hedge funds has been raised to US$ 0.10 million, and individuals may hedge their risks in overseas investments by participating in forward contracts. Statistics on overseas investment involving portfolio investments are being collected as of the 2004 CPIS survey.

11. India has been participating in the CPIS since 2004 for mandatory items, providing the 31 December position for resident entities, and including securities (equity, short/long-term debt). The 2004 and 2005 surveys have already been completed, and the 2006 survey is in the process of being completed. The information is collected from end-investors – which include banks, mutual funds, insurance companies, asset management companies and non-financial companies – through separate surveys for the banking sector and for the other entities. Only mandatory items, ie securities classified as equity securities, debt securities with an original maturity of one year or less (short-term), and debt securities with an original maturity of over one year (long-term), along with the jurisdiction of the issuer, are covered by the CPIS. In these surveys, data are collected directly from the relevant entities. The survey of mutual funds, insurance companies, asset management companies and non-financial companies is part of the annual 31 March survey of India's foreign liabilities and assets, reporting data as of 31 December. However, data flows from non-financial corporates are behind schedule. Data from high net worth individuals have yet to be covered by the CPIS.

12. IBS, both locational and consolidated, have been collected from banks on a quarterly basis since December 1999, covering international assets and liabilities of banks, and currency and sectoral breakdowns. India is participating in the IBS system of the BIS, and data have been incorporated in consolidated information released by the BIS since the quarter ending March 2001. A process is being developed to unify the collection of banking data through the IBS system, so that BIS, CPIS and other statistics on components of portfolio investments can be used to compile figures on international investment position and external debt.