प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001
DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001
फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
इ-मेल email: helpdoc@rbi.org.in

November 30, 2011

QE-II and FII inflows into India - Is there a Connection?
RBI Working Paper

The Reserve Bank of India today released a working paper – 19th in the series – titled 'QE-II and FII inflows into India – Is there a connection?' Working Paper series of the Reserve Bank of India was introduced in April this year to provide a platform to the Reserve Bank Staff for presenting their research studies as well as to receive feedback from informed researchers. Papers published under 'Working Papers' Series are quick analytical research papers on issues and challenges of contemporary relevance to the Reserve Bank. Unlike Occasional Papers, another research publication of the Reserve Bank which are published with specific periodicity, the Working Papers are published, as and when ready and only in digitised form. Views presented in Working Papers are the views of the author and do not represent the views of the Reserve Bank of India.

The recent Global Financial Crisis (GFC) caused decline in output in many countries around the world. In response to the GFC, expansionary fiscal and accommodative monetary policies were followed. Faced with near zero interest rates, a few developed economies undertook large scale purchase of government securities to support the economy. Between November 2008 and March 2010, the US Fed purchased a large amount of assets to prop-up the US economy. However, considerable downside risks to inflation remained. In a bid to aid faster recovery and fight deflation, the Fed, on November 3, 2010, announced its second round of asset purchases. This came to be popularly known as Quantitative Easing-II (QE-II). Increased liquidity emanating from these policies has been often suspected to be fuelling increased capital flows to the Emerging Market Economies. It is in this context that the paper examines the pattern of FII inflows into the Indian Stock Market using daily data between March 2010 and June 2011against the backdrop of Quantitative Easing-II in the US in a "Before-After" framework. In particular, this paper looks into the change in behaviour of FII inflows into the Indian Stock Market after the announcement of QE-II.

Preliminary empirical evidence suggests that FII inflows into the Indian Stock Market did not increase after the announcement of QE-II. Interestingly, FII inflows into the Indian Stock Market seemed to have increased after US Fed Chairman Bernanke made a speech at Jackson Hole indicating that QE was one of the many options available to deal with the downside risks to inflation. The finding that FII inflows did not increase after the announcement of QE-II could be indicative of the fact that market participants had been anticipating QE-II and this was factored-in into their behaviour. In fact, the results suggest that post the announcement of QE-II, FII inflows significantly fell. The fall in FII inflows post November 3, 2010 has been explained *via* factors negatively affecting stock market returns in India using global and domestic factors. These include sovereign debt problems in the Euro-area, political tensions between North and South Korea and in the MENA region, high inflation in India and policy rate hikes by the Reserve Bank of India.

Alpana Killawala
Chief General Manager

Press Release : 2011-2012/849