3. Foreign Portfolio Investors (FPIs)

Prelims Syllabus: Investments, Investment Models

Mains Syllabus: GS-III Investment Models.

Why in News?

- Recently, the Foreign Portfolio Investors (FPIs) have significantly reduced the pace of outflows from the equity and debt market in April, 2020, according to the data from Central Depository Services Limited (CDSL).

Highlights:

- The Foreign Portfolio Investers sold a net of Rs 6,883 crore from the equities market and net holdings worth Rs 12,551 crore from the debt market in April.
- Equity market: Its shares are issued and traded, either through exchanges or over-the-counter markets (i.e directly). It is also known as the stock market.
- Debt market: It is the market where debt instruments are traded. Debt instruments are instruments that require a fixed payment to the holder, usually with interest. E.g. bonds (government or corporate) and mortgages.
- However, they invested a net of Rs 4,032 crore in debt Voluntary Retention Route (VRR) scheme.
- VRR scheme allows FPIs to participate in **Repo Transactions and also invest in Exchange Traded Funds that Invest in Debt Instruments.**
- The success on developing medicine and vaccines will lead to a **V-shaped recovery** in the Economy and Markets.

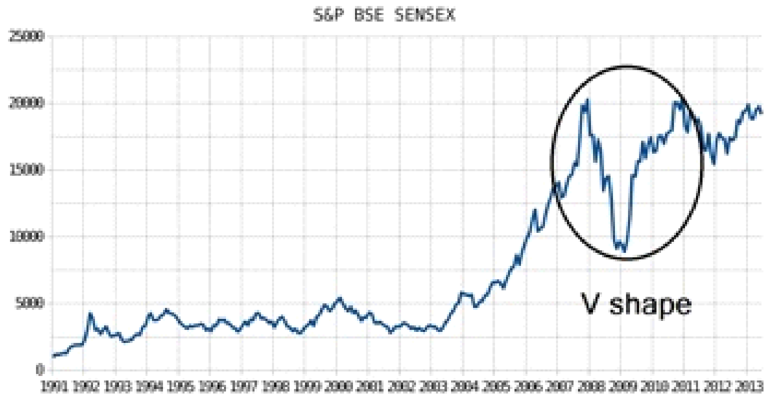
About Voluntary Retention Route (VRR) Scheme:

- It is aimed at attracting long-term and stable FPI investments into debt markets.
- Its Investment route will be free of the regulatory norms applicable to FPI investments in debt markets, provided investors maintain a minimum share of their investments for a fixed period.
- It has a minimum retention period of three years and investors need to maintain a minimum of 75% of their investments in India.
- FPIs registered with Securities and Exchange Board of India (SEBI) are eligible to voluntarily invest through the route in government and corporate bonds.

About V-Shaped Recovery:

- It is characterized by a sharp economic decline followed by a quick and sustained recovery.

- The recession of 1953 is an example of a V-shaped recovery.
- It is different from an L-shaped recovery, in which the economy stays in a slump for a prolonged period of time.



About Foreign Portfolio Investment:

- It consists of securities and other financial assets passively held by foreign investors.
- It does not provide the investor with direct ownership of financial assets and is relatively liquid depending on the volatility of the market.
- It is part of a country's capital account and is shown on its Balance of Payments (BOP).
- The BOP measures the amount of money flowing from one country to other countries over one monetary year.
- Its investor does not actively manage the investments through FPIs, he does not have control over the securities or the business. The investor's goal is to create a quick return on his money.
- It is more liquid and less risky than Foreign Direct Investment (FDI).

About Foreign Direct Investment (FDI):

- It is an investment made by a firm or individual in one country into business interests located in another country.
- It lets an investor purchase a direct business interest in a foreign country.
- It is often referred to as "hot money" because of its tendency to flee at the first signs of trouble in an Economy.
- Bout FPI and FDI are important sources of funding for most economies. Foreign capital can be used to develop infrastructure, set up manufacturing facilities and service hubs, and invest in other productive assets such as machinery and equipment, which contributes to economic growth and stimulates employment.