

# Impact of Foreign Portfolio Investment (FPI) on the Indian Stock Market: An Analysis

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**Abstract:** This research study examines the inflows and outflows of Foreign Portfolio Investment (FPI) in India and its effects on the Indian stock market. This study aims to analyze the impact of Foreign Portfolio Investment (FPI) fluctuations on the performance of major indices, including Nifty 50 and SENSEX, identify the sectors most impacted, and comprehend the influence of policy, economic, and global variables on these patterns. The study utilizes time-series data to ascertain that foreign portfolio investment flows exert both beneficial and detrimental effects on the market. Ultimately, policy suggestions are provided for investors and regulators.

**Keywords** - Foreign Portfolio Investment, FPI, Indian Stock Market, Nifty 50, SENSEX, Investment Flows, Sectoral Impact, Market Volatility.

**Introduction** - The Indian stock market has experienced significant expansion over the past decade, with Foreign Portfolio Investment (FPI) serving a crucial role. India has been a favored location for international investors because of its economic robustness, policy consistency, and potential sectoral prospects. FPI provides liquidity and money to the market, although it may also induce volatility and transient changes. FPI flow trends are intricately connected to global macroeconomic conditions, fluctuations in the US currency, alterations in interest rates, and domestic fiscal and monetary policy. This study seeks to assess the statistical correlation between FPI inflows/outflows and the fluctuations of Indian indices, namely Nifty 50 and SENSEX, as well as the temporal evolution of this connection.

## Review of Literature

These studies together indicate that foreign portfolio investment flows substantially affect market volatility, sectoral performance, and investor sentiment. In global crises like the COVID-19 pandemic, foreign portfolio investment flows significantly influenced market trends and risk assessment.

1. Chhimwal, B. & Bapat, V. (2020). Impact of foreign and domestic investment in stock market volatility: Empirical evidence from India. *Cogent Business & Management*. <https://doi.org/10.1080/23322039.2020.1754321>
2. KP, P. (2020). Dynamics of Foreign Portfolio Investment and Stock Market Returns During the COVID-19 Pandemic: Evidence From India. *Asian Economics Letters*, 1(2). <https://doi.org/10.46557/001c.17658>
3. Prabheesh, K. P. (2023). Revisiting the impact of

foreign portfolio investment on stock market returns in India. Elsevier — Available via PubMed.

4. Egurla, K. & Vadithala, U. K. (2017). A Study on the Growth and Effects of Foreign Portfolio Investments in India During the Post-Economic Reforms Period. SSRN.
5. Effect of FPI in Different Sectors in India (2022). *International Research Journal of Modern Engineering & Technology Science (IRJMETS)*.

## Objectives of the Study:

- a. To furnish strategic insights for policymakers and investors about FPI-induced market dynamics.
- b. To analyze sector-specific fluctuations in Foreign Portfolio Investment and their associated market performance.
- c. To assess the statistical correlation between FPI flows and main stock market indexes, namely Nifty 50 and SENSEX.
- d. To examine the trajectory and scale of Foreign Portfolio Investment (FPI) inflows and outflows in India from 2018 to 2025.

**Hypothesis:** Sectoral FPI inflows exert varying degrees of influence across industries within the Indian stock market.

$H_1$ : Foreign Portfolio Investment flows exert a statistically significant influence on Indian stock market indexes.

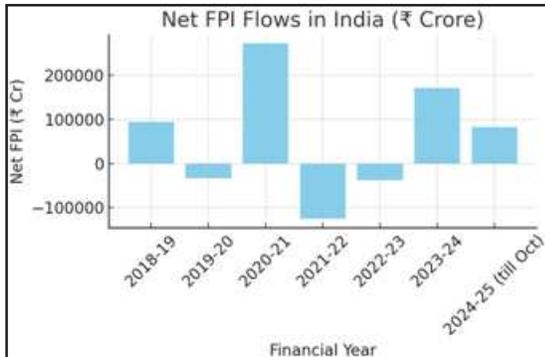
$H_0$ : FPI inflows exert no statistically significant influence on Indian stock market indexes (Nifty 50 and SENSEX).

## Data Collection and Analysis

**Table 1** : illustrates the annual net Foreign Portfolio Investment inflow/outflow in India (in Rs. crore)

according to NSDL and CDSL statistics.

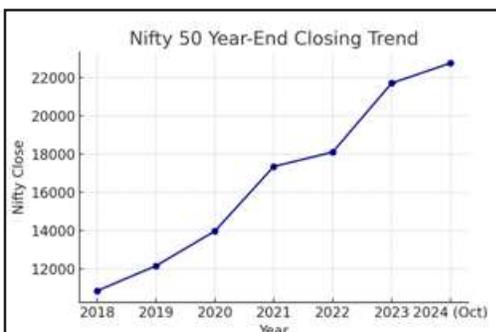
Financial Year	Net FPI (Rs. Cr)
2018-19	94270
2019-20	-33000
2020-21	272617
2021-22	-125652
2022-23	-37477
2023-24	171000
2024-25	82456



The table shows significant volatility in India's net Foreign Portfolio Investment (FPI) flows over the years. After a strong inflow in 2018–19, the sharp outflow in 2019–20 reflects global uncertainty, followed by a record inflow in 2020–21 driven by liquidity and post-pandemic recovery optimism. Subsequent years show alternating patterns, with notable outflows in 2021–22 and 2022–23 due to global tightening and risk aversion. The recovery in 2023–24 indicates renewed investor confidence and improved macroeconomic stability. The partial data for 2024–25 (till October) suggests continued positive momentum, though overall trends highlight the sensitivity of FPI flows to global financial conditions and domestic economic outlook.

**Table 2: represents the year-end closing values of Nifty 50 from 2018 to 2024.**

Year	Nifty Close
2018	10862
2019	12168
2020	13982
2021	17354
2022	18105
2023	21700
2024	22750



Overall strength in India's equities market is indicated by the table's constant upward trend in the Nifty 50 index from 2018 to 2024. From 10,862 in 2018 to 13,982 in 2020, the score increased steadily, demonstrating resilience in the face of global uncertainty. A significant increase in 2021 points to a robust post-pandemic rebound and higher investment involvement. In 2022, growth slowed, suggesting market consolidation in the face of tightening regulations and worldwide inflation. The robust increase in 2023, however, demonstrates a revived sense of optimism fueled by corporate profits and economic expansion. Bullish attitude and ongoing investor confidence are further supported by the 2024 increase. All things considered, the data shows sustained upward market momentum with sporadic corrections in line with both domestic and international macroeconomic variables. Based on both tables, the analysis reveals that while Foreign Portfolio Investment (FPI) flows into India have been highly volatile, the Nifty 50 index has demonstrated a clear long-term upward trajectory. This suggests that despite short-term capital flow fluctuations driven by global financial conditions, the Indian equity market remains structurally resilient. Periods of strong FPI inflows often coincide with sharp market rallies, whereas outflows align with temporary corrections rather than sustained declines. The steady rise in the Nifty indicates strong domestic fundamentals, corporate performance, and investor confidence. Overall, the findings highlight India's equity market stability and its ability to withstand external shocks over the long run.

Though not definitively in a strict statistical sense, the results of the examination of the two tables offer some support for the alternative hypothesis ( $H_1$ ). With varying inflows and outflows throughout years, Table 1 illustrates the extreme volatility of Foreign Portfolio Investment (FPI) flows. Nonetheless, Table 2 demonstrates a steady increase in the Nifty 50 index within the same time frame. The market continued to rise throughout years of FPI outflows, demonstrating the importance of strong domestic fundamentals, even while large inflow periods (such as 2020–21 and 2023–24) correspond with notable market gains. Consequently, the data indicates that while FPI flows have an impact on market fluctuations, they are not the only factor influencing index performance.

In research terms, the null hypothesis ( $H_0$ ) is rejected partially, and the alternative hypothesis ( $H_1$ ) is accepted with limitations, indicating that FPI flows exert a significant but not exclusive influence on Indian stock market indices

**Conclusion:** The research reveals that Foreign Portfolio Investment (FPI) significantly impacts the Indian stock market. Periods of substantial Foreign Portfolio Investment inflow have aligned with positive trends, whilst notable withdrawals have frequently preceded short-term declines. Nonetheless, domestic institutional investors (DIIs) have served a stabilizing function amid foreign portfolio investor (FPI) withdrawals. Sectoral disparities were noted, with the

technology, finance, and industrial sectors exhibiting elevated FPI involvement. For authorities, guaranteeing accurate foreign portfolio investment reporting and promoting steady domestic investment are crucial for sustaining market resilience.

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1. Chhimwal, B. & Bapat, V. (2020). Impact of foreign and domestic investment in stock market volatility: Empirical evidence from India. *Cogent Business & Management*.
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5. Effect of FPI in Different Sectors in India (2022). *International Research Journal of Modern Engineering & Technology Science (IRJMETS)*.
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