

ABSTRACT

EMEs have witnessed large and rapid outflows of capital during times of stress such as the GFC of 2008–09, the taper tantrum in 2013, and the outbreak of the COVID-19 pandemic in 2020 and the dilation of shocks through large oscillations in capital flows has become a chief causal risk factor facing the EMEs. In this context, the present study aims to understand the changing pattern of Indian capital flows. It also seeks to ask a question of whether changes in the trends and patterns of portfolio flows have been chaperoned by changes in the determinants that drive them. Thus it becomes quintessential to examine the push and pull factors that drive them. The analysis suggests that in the context of India, the pattern of capital flows is in the desired direction with direct investment greater than portfolio flows and equity flows greater than debt flows. In order to examine the determinants of portfolio flows, the study has used monthly data for the period of 1997M4 to 2021M7. Empirical analysis has been conducted with the help of the ARDL approach and results highlight that domestic stock market performance, NEER, interest rate differential, domestic and foreign economic growth, exchange rate volatility, and MSCI Index act as determinants of portfolio flows. The study has also taken a step ahead to look for linear interdependence in the policy responses of major Central Banks. The analysis has been conducted by using monthly data on long-term interest rates for the period of 2011M12 to 2021M12 with the help of impulse response functions. Results highlight that all the selected countries react instantaneously to a shock in the US monetary policy however its impact recedes which varies across nations. It also highlighted how AEs monetary policy stances have influenced portfolio flows in India and the RBI reactions towards it. Analysis suggests that India must continue its careful and phased opening of the capital account for smooth management of capital flows.

Key words: *Portfolio flows, Monetary Policy Interdependence, ARDL, and Impulse response*