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Abstract:

The sudden outflow by foreign institutional investors during the global financial crisis of 2008 and its surges in the period subsequent to that had created considerable disturbance in the emerging markets with regard to the stability of such flows. Although foreign institutional investors provide a welcome source of external finance for domestic companies, their short-term investment horizon has raised concerns over their stability and their negative impact on the country. FIIs flooded many emerging capital markets subsequent to quantitative easing of money in United States and deserted them when returns were less or their price-earning ratio was higher as compared to other countries. Thus, it becomes important to implement such policies or mechanisms which can withstand the potential volatility of foreign capital flows. While the International Monetary Fund, the World Bank and the Asian Development Bank recommend capital controls to deal with the problem of excessive flows by FIIs, the Central Banks have to meet the challenges with regard to the formulation of monitory policy and exchange rate management by taking into account rising current account deficits and the growth potential of the country. This paper seeks to find out various options available to countries to deal with fickle foreign capital flows.
Key Words: Foreign, Volatility, Market, Investor