

## Covid spike, local lockdowns could disrupt FPI inflows: Ind-Ra



The recent spike in Covid-19 cases along with associated lockdowns, though localised, could disrupt foreign portfolio investments as well as domestic credit markets, said India Ratings and Research (Ind-Ra).

According to [Ind-Ra](#), India's second round of Covid outbreak is moving in a direction different from the global trend.

"The cases seem to have abated in major countries and the massive vaccination drive is expected to anchor any meaningful surge. Therefore, the counter trends coupled with spurt in daily cases would be the cause for concern in the near term," the agency said in a report.

"While the mortality rates have remained benign, the infection rate is increasing at a much faster rate than earlier."

Notably, the agency expects that India's vaccination drive would minimise the impact, the duration would be a function of its pace.

However, the agency cited mounting Covid-19 cases in India as opposed to benign conditions in advance economies could have an adverse effect on the investors' risk appetite.

"Also, a sharp economic recovery and reflationary trend have already been causing a rise in global yields. This also is a negative factor for risky assets such as equity."

"Foreign portfolio investments (FPIs), especially into the equity, have been reasonably strong in recent months, any reversal from the trend however could destabilise the ongoing favourable conditions across the financial markets."

Similarly, for the domestic credit markets, the agency said that amid a cautious financial system, the condition was improving, allowing low rated issuers to access capital though at a significantly high cost.

"Some of these gains could reverse and risk aversion could increase. The agency believes conducive financing options is necessary, and volatile capital market condition impinges such proposition."

"The agency however also believes the enormous banking system liquidity and proactiveness from the Reserve Bank of India will alleviate the risk of a market failure."

As per the report, the domestic G-Sec market is likely to stay benign on the renewed hope from a further monetary easing in case the situation worsens considerably.

"At the same time, any outflow from the capital market or pressure on balance of payment would open up room for the regulator to conduct open market purchases."

[Ind-Ra](#)