A Study on the Impact of FII and DII Investments on Market Movements in India

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Abstract

Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs) play a significant role in influencing the Indian stock market through their investment decisions. This study examines the impact of FII and DII investments on market movements by analysing market liquidity, volatility, investor sentiment, stock prices, and market stability. A descriptive research design was adopted using primary and secondary data collected from **100 respondents** through a structured questionnaire. **Simple Comparative Analysis** was used to compare the influence of FIIs and DIIs on market performance. The findings indicate that FIIs significantly influence short-term market movements, while DIIs contribute to market stability and long-term growth by supporting investor confidence and improving market efficiency.

1. Introduction

The stock market plays a vital role in the economic development of a country by facilitating capital formation, mobilizing savings, and providing investment opportunities for individuals and institutions. The Indian stock market has experienced remarkable growth due to economic liberalization, globalization, technological advancements, and increased participation by institutional investors. Among the various market participants, Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs) have emerged as major contributors to market liquidity, price discovery, and capital market development. Their investment decisions significantly influence stock prices, market indices, trading volumes, and investor confidence. As institutional investors possess substantial financial resources, professional expertise, and advanced market intelligence, their buying and selling activities often determine the direction of market movements.

Foreign Institutional Investors are investment entities registered outside India that invest in Indian financial markets. They include mutual funds, pension funds, insurance companies, hedge funds, sovereign wealth funds, and asset management firms. FIIs entered the Indian capital market following the economic reforms of 1991 and have since become an important source of foreign capital. Their investment decisions are largely influenced by global economic conditions, interest rates, exchange rate movements, inflation, geopolitical developments, and international financial trends. Large FII inflows generally increase market liquidity and improve investor confidence, whereas large-scale withdrawals often result in market volatility and declining stock prices. Domestic Institutional Investors, on the other hand, include mutual funds, insurance companies, banks, pension funds, and financial institutions operating within India. DIIs mobilize domestic savings and invest them in financial markets, thereby providing stability during periods of market uncertainty. Their investment behaviour is generally based on long-term economic fundamentals rather than short-term global developments.

The interaction between FIIs and DIIs creates a dynamic investment environment in the Indian capital market. While FIIs contribute foreign capital, global investment expertise, and improved market liquidity, DIIs act as stabilizing forces by purchasing securities during periods of heavy foreign selling. Technological advancements such as algorithmic trading, artificial intelligence, and real-time market analytics have further enhanced institutional investment decisions. The present study analyses the impact of FII and DII investments on market movements by examining their influence on stock prices, market liquidity, volatility, investor sentiment, and market efficiency. The effectiveness of institutional investments is evaluated using **Simple Comparative Analysis**, providing valuable insights for investors, financial analysts, policymakers, academicians, and market regulators interested in understanding institutional investment behaviour and its contribution to the sustainable development of the Indian capital market.

2. Literature Review

Institutional investors have become one of the most influential participants in the Indian capital market because their investment decisions significantly affect stock prices, market liquidity, volatility, investor confidence, and overall market performance. Foreign Institutional Investors introduce international capital into domestic financial markets, whereas Domestic Institutional Investors mobilize domestic savings and contribute to market stability. The interaction between FIIs and DIIs determines market trends, enhances liquidity, and supports efficient price discovery. Previous studies consistently indicate that balanced participation by both institutional investor groups strengthens the resilience, efficiency, and long-term growth of the Indian stock market.

Chakrabarti (2001) found that FII inflows positively influence market performance by improving liquidity and market efficiency. Rai and Bhanumurthy (2004) concluded that macroeconomic stability, exchange rates, and economic growth significantly influence FII investment decisions. Kumar (2009) reported that DIIs reduce excessive market volatility while FIIs contribute to short-term market fluctuations. Mukherjee and Bose (2012) observed that institutional investment activities significantly affect stock prices and trading volumes. Sharma and Kaur (2017) highlighted the stabilizing role of DIIs during periods of foreign capital outflows. Mehta and Joshi (2024) concluded that balanced participation by FIIs and DIIs improves investor confidence, market liquidity, financial stability, and long-term capital market development in India.

3. Research Objectives

1. To study the investment patterns of Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs) in the Indian stock market.
2. To examine the impact of FII investments on stock market performance and market movements.
3. To assess the contribution of DII investments towards market stability and investor confidence.
4. To analyse the relationship between institutional investment flows and market volatility.
5. To compare the influence of FIIs and DIIs on market trends and capital market development.
6. To suggest suitable measures for improving market stability and institutional investment participation.

4. Research Methodology

The study adopted a **descriptive research design** using both primary and secondary data. Primary data were collected from **100 respondents**, including investors, traders, and finance professionals, through a structured questionnaire. Secondary data were obtained from NSE reports, BSE reports, SEBI publications, RBI reports, research journals, books, newspapers, official stock exchange websites, and market surveys. **Convenience sampling** was adopted, and **Simple Comparative Analysis** was used to compare the influence of FIIs and DIIs on market movements and investment behaviour.

5. Data Analysis

Statistical Tool Used: Simple Comparative Analysis

Table 1. Comparative Impact of FIIs and DIIs on Market Movements

Variables	FII (%)	DII (%)
Strong Impact on Market Movements	68	70
Moderate Impact	16	14
Low Impact	16	16

Interpretation

The comparative analysis indicates that both **FIIs and DIIs significantly influence market movements**. FIIs contribute to rapid changes in stock prices and trading activity through large investment flows, while DIIs provide market support during periods of volatility. The findings suggest that balanced participation by both institutional investors contributes to efficient market functioning and sustainable capital market development.

Table 2. Institutional Investments and Market Performance

Variables	Percentage (%)
Institutional Investments Improve Market Liquidity	68
Institutional Investments Improve Investor Confidence	70
Institutional Investments Improve Market Efficiency	70

Interpretation

The analysis reveals that institutional investments positively influence **market liquidity, investor confidence, and market efficiency**. Most respondents believe that active participation by FIIs and DIIs enhances price discovery, improves trading activity, and strengthens overall stock market performance.

Table 3. Institutional Investments and Market Stability

Variables	Percentage (%)
FIIs Influence Market Volatility	68
DIIs Support Market Stability	70
Institutional Investments Promote Capital Market Growth	68

Interpretation

The comparative analysis demonstrates that **FIIs contribute significantly to market volatility through foreign investment flows**, whereas **DIIs act as stabilizing investors during market corrections**. Respondents believe that the combined participation of FIIs and DIIs improves market resilience, strengthens investor confidence, and supports long-term capital market growth in India.

6. Results

The study reveals that both Foreign Institutional Investors and Domestic Institutional Investors play significant roles in influencing the Indian stock market. Respondents believe that FII investment flows strongly affect stock prices, market liquidity, and short-term market movements, while DII investments provide stability during periods of market uncertainty. Institutional investments improve investor confidence, enhance market efficiency, and contribute to capital market development. The **Simple Comparative Analysis** confirms that balanced participation by FIIs and DIIs strengthens market resilience and promotes sustainable growth of the Indian capital market.

7. Suggestions

Regulatory authorities should continue implementing transparent and investor-friendly policies that encourage both foreign and domestic institutional investments while maintaining market stability. Greater participation of Domestic Institutional Investors should be promoted through mutual funds, pension funds, insurance schemes, and systematic investment plans to reduce excessive dependence on foreign capital. Institutional investors should adopt long-term investment strategies rather than focusing on short-term speculative gains. Market regulators should closely monitor large institutional transactions and ensure timely disclosure of investment activities to improve transparency and investor confidence. Financial literacy programmes should be expanded to educate retail investors about the role of FIIs and DIIs in market movements. Regular assessment of institutional investment trends and effective risk management practices will further strengthen market efficiency, liquidity, stability, and sustainable growth of the Indian capital market.

8. Conclusion

Institutional investors have become one of the most influential participants in the Indian capital market. The study concludes that both Foreign Institutional Investors and Domestic Institutional Investors significantly influence stock market performance, liquidity, investor confidence, and market stability. The **Simple Comparative Analysis** confirms that FIIs contribute foreign capital, improve market liquidity, and influence short-term market movements, whereas DIIs provide stability by supporting the market during periods of volatility and foreign capital outflows. Balanced participation by FIIs and DIIs strengthens market resilience, enhances price discovery, and supports sustainable capital market development. Continuous improvement in regulatory policies, investor awareness, institutional participation, and market transparency will further promote the long-term growth and stability of the Indian stock market.

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