ARE INDIA’S RECENT FUND INFLOWS STRUCTURAL IN NATURE: COMMON PATTERNS WITH USA

Sourajit Aiyer*

Purpose
Recent years saw significant inflows into financial savings in India, especially into mutual funds. Equity mutual funds alone saw net inflows of over Rs. 700 bn in each of the last three years, a reversal from the five years prior to that which saw an aggregate net outflow of Rs. 308 bn. But is this surge merely transitory or more structural in nature? This paper connects India’s experience from 2014-onwards with that seen in USA from mid-1980s to mid-2000s, which is when mutual fund penetration there took off.

Design/Methodology/Approach
The paper identifies commonalities in their respective periods of demand-side parameters like macro trends and its impact on disposable surplus, real estate and fixed income trends which pushed the migration towards financial savings and equities, as well as supply-side parameters like the industry’s efforts to expand its network and awareness. Data related to macro metrics like inflation, per capita income, GDP, gross savings, household savings, financial savings, policy interest rates, along with industry metrics like mutual fund AUM, investor awareness programs and IFA count are used to identify commonalities in their experiences.

Findings/Outcomes
Observations lead to conclusion that the recent surge in inflows in Indian mutual funds is more structural in nature, at least for the near-term. However, India also started thinking long-term when it comes to holding investments, something where it is yet to match its US counterparts. If that happens, the trend will be structural in nature even for the long-term, not just the near-term.

Implications
It has long term economic implications for policy makers. The observations can also be learning for Asian developing countries where financial saving is yet to take off, especially in those products which are earning higher real returns.

Originality/value
The comparison with the US is new and therefore, adds to the extant literature.

Keywords: Financial Savings, Financial Markets, Income, Saving, Mutual Funds, Investments, Assets.