

Feature Articles

This month's focus: Indian Financial and Capital Markets: Challenges and New Developments

The Structure of India's Financial System under Economic Growth

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India's current financial system has become increasingly diversified, and it is no longer sufficient to understand it merely as a traditional, indirect financial system. More specifically, while India's financial system remains bank-centric, banks face many constraints, and compared to other emerging economies, the securities market is relatively large in proportion to the size of the banking sector. Furthermore, there has been remarkable growth in non-bank financial companies that perform diverse functions, and the presence of non-bank financial companies has been increasing—partly due to the impact of digitisation.

The Growing Interest of Foreign Investors in India's Capital Markets: Investment Promotion Measures and the Establishment of International Financial Services Centre

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India has been attracting foreign investors' attention in recent years. The major reasons for foreign investors' growing interest in India are its high economic growth and its relative attractiveness as an investment destination among emerging economies. Financial regulators' various measures have also promoted foreign investment into India. Looking ahead, Gujarat International Financial Tec-City (GIFT City), which has the maiden international financial services centre in India, is expected to play an important role in attracting foreign investors.

Startup Ecosystem in India as the Epicenter of Global Innovation and a Promising Investment Destination

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Since the launch of the Modi government in 2014, the digitalization of Indian society and economy has rapidly advanced, leading to swift development and evolution of India's startup ecosystem in response. The number of unicorn companies has exceeded 100, making India the third-largest after the U.S. and China. Although the startup ecosystem in India experienced significant adjustments due to the Funding Winter that began in 2022, the tech IPO market is currently recovering. If successful tech IPOs accumulate in the coming years, India is likely to strengthen its position as a global innovation epicenter and a promising investment destination, especially in response to the ongoing global shift towards India driven by U.S.-China tensions, securing a solid foothold in the 21st century.

Feature Articles

How Susceptible is the Indian Stock Market to Global Shocks in the Risk-off Phases?

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With the remarkable rise in stock prices, the Indian stock market is attracting increasing attention from overseas investors. Although the Indian stock market is not particularly open to the outside world compared to other emerging countries, deregulation is also progressing in India, and changes in the international financial market situation have led to significant inflows and outflows of foreign capital. Is Indian stock market really more susceptible to the effects of global shocks than other emerging countries? In this paper, we conducted a historical decomposition based on the FAVAR model, and found that the impact of global shocks has been relatively greater in recent risk-off phase.

Articles

The Impact of Passive Investment on Stock Prices: Evidence from the Phased Weighting Reduction Constituents in TOPIX

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As the first stage of the revisions of the Tokyo Stock Price Index (TOPIX), phased weighting reduction was implemented for stocks with tradable share market capitalization under 10 billion yen from the end of October 2022 to the end of January 2025. This study analyzes the impact of passive investment on the stock prices of the phased weighting reduction constituents. The results show that just before the weighting reduction dates, the excess returns of the constituents turned negative and trading volumes surged, suggesting the influence of portfolio rebalancing by TOPIX-linked passive funds.

Thematic Funds: Investor Behavior, Distributor Behavior, and Performance in the Japanese Mutual Fund Market

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This study focuses on thematic funds that invest in global equities and examines investor behavior, distributor behavior, and their associated performance. In the Japanese mutual fund market, distributors have been criticized by the Financial Services Agency and the media for launching and promoting funds based on trending themes. The analysis reveals that thematic funds with high sales loads tend to attract significant inflows at the initial stage, and the probability of inflows is higher when the fund is younger. This reflects both the strong incentive for distributors to sell thematic funds and the tendency for investor interest to wane over time. On the other hand, thematic funds achieve higher performance within 60 months of inception compared to other funds, indicating a phenomenon specific to Japan. These findings suggest that the distribution of thematic funds and investment in them are not necessarily subject to criticism.