


# Chapter 12

## The Effect of Foreign Portfolio Investments on Istanbul Stock Exchange BIST–30 Analysis

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### ABSTRACT

*This chapter presents the findings of a study which aimed to investigate the effect of foreign portfolio investments in companies traded in the BIST-30 index after the 2008 crisis on the market value, stock closing price and stock return of companies. Another aim of this study was to examine the effects of macroeconomic variables such as real effective exchange rate, CPI index and current account deficit. For these purposes, daily stock changes, market value and foreign share data of Borsa İstanbul BIST-30 companies for the years 2010-2014 were collected. In the study, six different models were tested. Although the findings of the research differ from model to model, they provide information about the general tendencies of foreigners. The findings shed light on the effects of portfolio investments on the market value of companies for investors and researchers.*

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# 1. INTRODUCTION

## 1.1. Conceptual Frameworks

‘Current account deficit’ refers to a country's foreign exchange outflows exceeding all foreign exchange inflows. Countries use many methods to finance their current account deficits. Many studies have been conducted on current account deficit financing and its problems, and their effects on the financial development levels of countries have been evaluated by scholars. Türkiye, which is among the developing countries, has a current account deficit except for periods of contraction. Achieving sustainable growth instead of growing above or below the country's capacity helps countries develop further. In this sense, portfolio investments contribute significantly to reducing the current account deficits.

Borsa Istanbul (BIST), formerly known as ISE, which is the trading venue for portfolio investments, started operating in 1986 and has an important place among developing countries with its size. The fact that the size of individual investors in Türkiye does not reach the desired level poses an obstacle to the growth of BIST. Although there has been a significant increase in the number of companies going public in recent years, BIST stands out as a stock exchange that can make further progress. Borsa Istanbul, which includes many securities instruments, contributes to the growth of the country, and has become even more important with the increase in transparency and accountability. Corporate and Foreign Investors carry more than one investment instrument in their portfolios. This helps them spread return risk and protect themselves from extreme situations.

‘Foreign portfolio investments’ refer to investors in countries with capital surplus investing in securities in countries with capital deficits. Foreign portfolio investments last for more than a year on average in Türkiye. In some developing countries, this figure can reach three years or more. Many criteria are considered when determining the duration of foreign portfolio investments. In addition, foreign portfolio investments prefer stocks that have high market circulation, liquidity, and public openness, reached a certain company value, and can be tracked with certain indices. When the studies on foreign portfolio investments are examined, it is seen that these studies mostly address the factors affecting foreign portfolio investments (e.g., Aron, et al., 2010; Haider et al., 2016; 2017; Küçükkocaoğlu & Çakır, 2021; Ustaoglu, 2021). In some studies, the impact of foreign portfolio investments on various variables such as company stock returns and economic growth are emphasized (e.g., Çetenak, 2006; Khayat, 2020; Kılıç, 2020; Köycü & Kayalı, 2021; Sugözü & Yaşar, 2020; Topaloğlu et al., 2019; Yapraklı, 2020).

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