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A Study on Foreign Direct Investment (FDI) Inflows in Indian banking Sector

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ABSTRACT

Nowadays, whole world considered India as an attractive and lucrative destination for Foreign Direct Investment (FDI). The eminent growth of FDI inflows in total service sector especially in the banking sector is most fabulous as it contributes biggest part to India's Gross Domestic Product (GDP). Hence, Net inflows of FDI regarded as one of the major sources of economic development of India. The main objectives of the present study is toexamine the net FDI inflows in India and compare the growth rate and percentage of FDI inflows in service sector and Banking sector in India during different periods.The study also attempts to compare the growth rate of Net FDI inflows, FDI inflows of total service sector and banking sector in India. The present study is analytical in nature and it has been purely based on secondary data that has been collected from 2014 to 2019 period.

Keywords: Foreign Direct Investment (FDI), Service sector, Banking sector, Gross Domestic Product (GDP).

INTRODUCTION

After the economic liberalization from 1991, whole world considered India as an attractive and lucrative destination for investment. Nowadays, India positioned as one the largest democracies in the world and offers tremendous opportunities for growth and investment. Foreign investors are willing to invest in India because of the easy foreign direct investment policies and special benefits like tax exemption. The wages in India are also relatively cheaper and the country has an abundant flow of workforce and a robust financial sector. [9]

FDI is one of the major sources for economic development of India. According to the recent report of United Nations Conference on Trade And Development (UNCTAD), FDI in India grew by 6% to $42 billion in 2019. [8] When compared to any other sectors, the services sector in India received the highest share in FDI amounting to over9157.54 million US$ in financial year 2018-2019.That means Total Indian service sector gained the growth of 1.37 million US$ compared to previous year. According to the Recent statement of Department for Promotion of Industry and Internal Trade (DPIIT) on sector-wise FDI equity inflows during calendar year January 2019 to June 2019, banking sector the majour sub sector of service sector gained 729.76 million US$ (i.e. 2.68% of total inflows). These tremendous growth in the inflows of FDI in service sector especially in banking sector is more vital as it contributes principal part to Nation's GDP.

FOREIGN DIRECT INVESTMENT (FDI): AN OVERVIEW

Foreign Direct investment (FDI) in India was introduced in 1991 under the Foreign Exchange Management Act (FEMA) implemented by the finance minister, Dr. Manmohan Singh. It commenced with the baseline of 1 billion dollars in 1990.According to RBI, Foreign Direct Investment (FDI) is the investment through capital instruments by a person resident outside India (a) in an unlisted Indian company; or (b) in 10 percent or more of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company. [7]

FDI comprises of Net inflows and Net outflows. FDI net **inflows** are the value of inward direct investment made by non-resident investors in the reporting economy. Whereas, FDI net **outflows** are the value of outward direct investment made by the residents of the reporting economy to external economies.it is also called direct investment abroad.

FDI IN RECENT SCENARIO

According to Department for Promotion of Industry and Internal Trade (DPIIT), the FDI inflows into all sectors increased by 28% in the first half of 2019 to $16.3 billion from $12.7 billion in the year-ago period. And also found that Singapore was the largest source of FDI in India with $ 5.33 billion investments followed by FDI from Mauritius worth $ 4.67 billion, the US worth $ 1.45 billion, Netherlands worth $ 1.35 billion and Japan worth $ 472 million. [11]

During the first half of 2019, among the sectors, telecommunications garnered the maximum FDI at $ 4,227 million, followed by services sector at $ 2,799 million. There visible a slight dip in the growth of service sector. At the same time, when compared to calendar year 2018, there visible a wide scope and expectations regarding the huge growth of FDI in the service sector in the upcoming second half of 2019 and further years. [6]

Ceiling on FDI in Indian banking sector

Among the sectors in India, service sector is considered as the top most FDI inflow receiving sector. The service sector consist of several sub sectors such as Financial, Banking, Insurance, Non-Financial services and Business services, Outsourcing, Research & Development (R&D), Courier, Technical testing and Analysis. Of which Banking sector is most prominent one, hence they are the financial lifeline of the nation and core part of the entire Indian economy. Banking sector paving the stepping stones for the development and growth of other sectors. The Contribution of the banking sector to GDP is immensable and it is also ensures wide employment opportunities and overall financial efficiencies for the economy. Elevated FDI inflows in Banking Sector ensures great solutions to several banking problems like Inefficient Management, Non-Performing Assets, Financial Instability and Poor Capitalization etc. [12]

The aggregate foreign investment in a private bank from all sources is allowed up to a maximum of 74 per cent of the paid up capital of the Bank. At all times, at least 26 per cent of the paid up capital will have to be held by residents, except in regard to a wholly-owned subsidiary of a foreign bank. On the other hand, Foreign Direct Investment and Portfolio Investment in the public or nationalized banks in India are subjected to a limit of 20 % in totality. This ceiling is also applicable to the investments in the State Bank of India. [3]FDI limits in the banking sector of India were increased with the aim to bring in more FDI inflows in the country along with the incorporation of advanced technology and management practices. The objective was to make the Indian banking sector more competitive.

LITERATURE REVIEW:

Mahesh kumaryadav, and Dr. BhupenderkumarDular (2017) [12]in their research paper titled "A study of foreign direct investment and Indian banking sector" have emphasized that, FDI in Banking Sector solves various problems like inefficient management, Non-Performing Assets,financial instability and poor capitalization. Further, FDI in banking sector provide the benefits oftechnology transfer, better risk management, financial stability and innovative products.

Dr. Arjun Singh Sirari (2011) [1]in his research paper titled "Foreign Direct Investment (FDI) In Indian Service Sector (A Study of Post Liberalization)" has pointed out that, FDI has helpedto raise the output, productivity and employment in some sectors especially in service sector. And it also mentioned that, Indian service sector is generating the proper employment options for skilled worker with high perks.

Dr. S.M.Tariq Zafar and etal. (2017) [2]Authors in their work titled "An Analytical Study on Foreign Direct Investment (FDI) and itsrelative impact on Indian Economy" have revealed that Government of India's amendments and policy initiatives have generated positive and encouraging results which accelerated the nation's economic pace. They are also pointed that FDI inflow at micro and macro level has accelerated the industrial production and it has influenced the general price level in the economy.

SIGNIFICANCE & NEED OF THE STUDY:

FDI is consider as a major monetary source and key element for the economic upliftment of the nation. The positive trend in the growth of FDI inflows leads to generate wide employment opportunities and continuous development in the basic infrastructure of the country.The flow of FDI in Indian service sector especially in the banking sector, is boosting the growth of Indian economy, this sector contributing the large share in the growing GDP of India. The main objectives of the present study is to examine the net FDI inflows in India and compare the growth rate and percentage of FDI inflows in service sector and Banking sector in India during different periods. Hope this study will helpful to government authorities when developing time bound action plans to attract more foreign investors to India and at the time of taking strategic decisions regarding elevating the FDI inflows.

OBJECTIVES OF THE STUDY:

1. To examine the Net FDI inflows in India by comparing with Service sector and Banking sector in India.
2. To compare the growth rate of Net FDI inflows, FDI inflows of total service sector and banking sector during the period 2014-2019.

RESEARCH METHODOLOGY:

The study is analytical in nature. Information needed for the present study obtained from various secondary sources such as FDI annual issues, statistics and newsletters of DIPP. During the study various websites, magazines, journals, newspapers and books dealing with FDI and the current banking scenario are also referred. The data used in the present analysis is confined to the past five years from 2014 to 2019.

RESULT AND DISCUSSION:

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Table No: 1. Amount of Net FDI inflows and its Growth Rate during the Financial year 2014-15 to 2018-19(From April 2014-March 2015 to April 2018-March 2019)

YEAR	Net FDI inflows			
	Amount (In Rs million)	Growth Rate (In Rs)	Amount (In US$ million)	Growth Rate (In US$)
2014-15	1891071.26	1.00	30930.5	1.00
2015-16	2623215.61	1.39	40000.98	1.29
2016-17	2916963.33	1.54	43478.27	1.41
2017-18	2888885.01	1.53	44856.75	1.45
2018-19	3098666.69	1.64	44366.03	1.43

Source:Department for Promotion of Industry and Internal Trade (DPIIT),DIPP-SI- News- Letters

Figure 1.1: Amount and Growth Rate of Net FDI inflows (In Rs.)

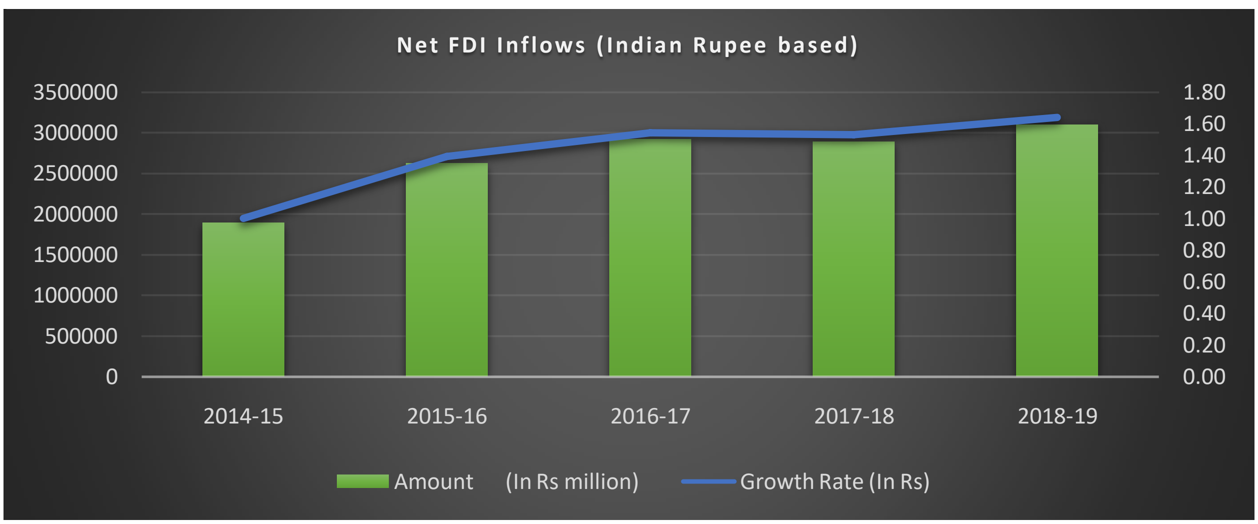
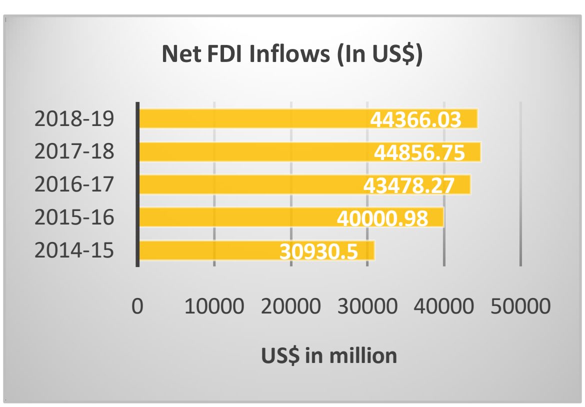


Figure 1.2:Amount of Net FDI inflows (In US $)Figure 1.3: Growth Rate of Net FDI Inflows (In US $)



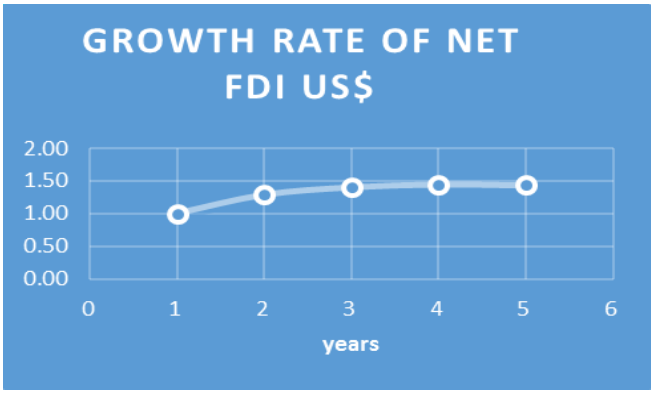


Table No: 1 showed Amount of Net FDI inflows and it's Growth Rateduring the financial year April 2014 to 2019 March. From the above Figure 1.1, it is clear that the amount of Net FDIinflow during the FY 2014-15 was Rs.1891071.26 million that is corresponding to US$ 30930.5 million inflows to India. During the year 2015-16, the amount of Net FDI further enhanced to Rs.2623215.61 millionwith the corresponding US $ of 40000.98 million with a growth rate of 1.39 and 1.29 respectively for Indian rupees and US $. In 2016-17 the amount of Net FDI further augmented to Rs. 2916963.33 million with the growth rate 1.54million likewise foreign currency increased to Rs.43478.27 million US $ at the growth rate of 1.41million. But in the year 2017-18 their visible a minute dip in the amount of Net FDI due to demonetisation (i.e. just Rs. 28078.32 difference from previous year)But at the same time there visible a continuous positive movement in the growth of US $ amounted to 44856.75 million at1.45million growth rate. Finally in the year 2018-19 the amount of FDI again increased to Rs.3098666.69 million and reached a high growth rate of 1.64 million. The corresponding amount of FDI inUS$ 30930.5 million with growth rate of 1.43million.

Table No: 2 FDI inflows in Service Sector during the Financial year 2014-15 to 2018-19 (From April 2014-March 2015 to April 2018-March 2019)

YEAR	FDI inflows in Service sector				% of FDI Inflows in service sector based on total FDI inflows (In Rs. million)	Growth Rate (In Rs.)
	Amount (In Rs million)	Growth Rate (In Rs)	Amount (In US$ million)	Growth Rate (In US$)		

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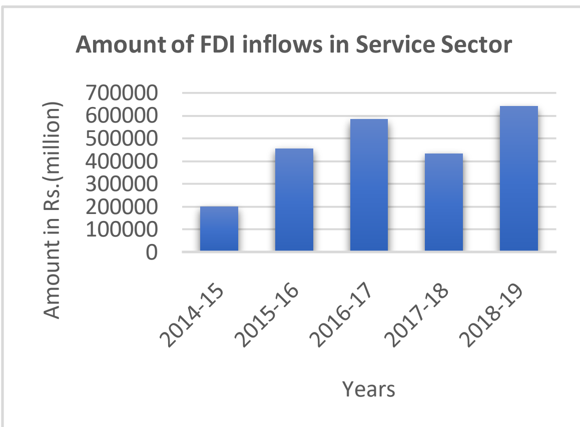
2014-15	199624.76	1.00	3252.97	1.00	10.56	1.00
2015-16	454151	2.26	6889.46	2.12	17.31	1.64
2016-17	582135.59	2.92	8684.07	2.67	19.96	1.89
2017-18	432490.12	2.17	6708.58	2.06	14.97	1.42
2018-19	639094.37	3.20	9157.54	2.82	20.62	1.95

Source:Department for Promotion of Industry and Internal Trade (DPIIT),DIPP-SI- News- Letters

Figure 2.1: Amount of FDI in service sector (**In Rs.**)

Figure 2.2: Amount of FDI in service sector (**In US$**)



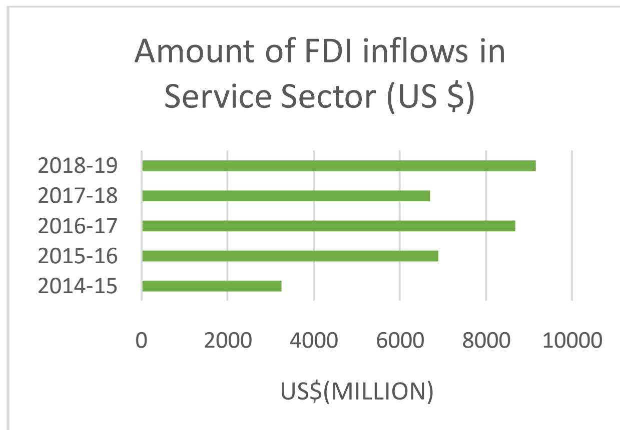


Figure 2.1: Growth Rate of FDI in service sector

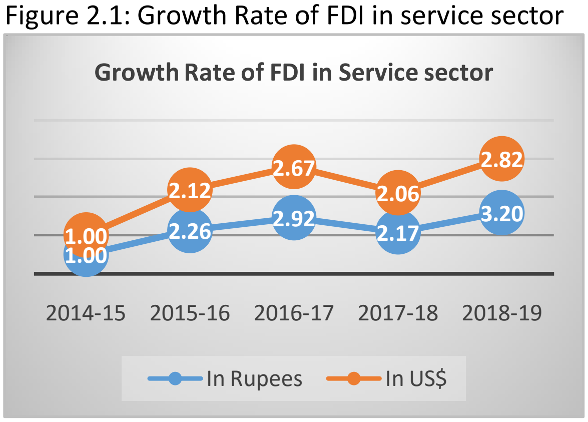


Figure 2.2: Percentage of FDI in service sector

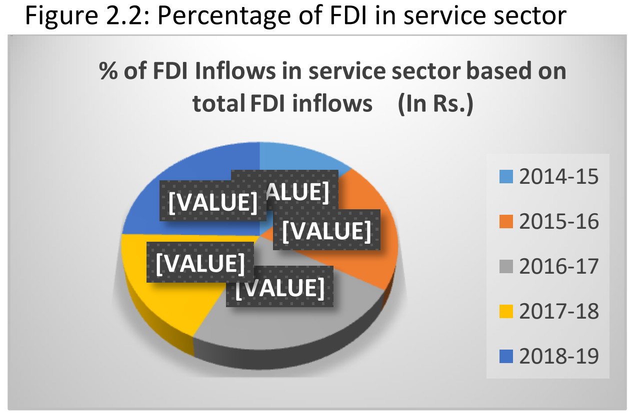


Table No: 2 showed inflows of FDI in Service sectorduring the financial year April 2014 to 2019. This table also give data about total amount and growth rate of FDI in service sector at Indian rupees as well as US$ and also give lights on to percentage of FDI in service sector on the basis of Net FDI. In 2014-15, it was noted that in service sector of India the amount of FDI

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inflows was Rs. 199624.76million, thecorrespondingpercentage of FDI in service sector on the basis of Net FDI wasRs.10.56 million. Unfortunately in 2015-16, the inflow of FDI in service sector was reduced to Rs.454151million, resulted a growth rate 2.26times and the percentage of FDI in service sector was Rs.17.31 million with % growth rate of 1.64 million times. But there was a hectic arise of FDI in service sector noted in the year 2016-17, which amounted to Rs.582135.59 million with a corresponding growth rate 2.92 times. The percentage of FDI in service sector also increased to Rs.19.96 million.Again in 2017-18, there was a drastic reduction in FDI in service sector was noted which reduced to Rs.432490.12 million with growth rate of 2.17 times. In 2018-19, the service sector recorded the all-time inflows of FDI amounted to Rs.639094.37 million with the growth rate of 3.20 times. The percentage of FDI in service sector also increased to Rs.20.62 million with growth rate of 1.95 times.

Table No: 3 FDI inflows in Banking Sector during the Calendar Year January 2014 to June 2019

YEAR	FDI inflows in Banking sector				% of FDI inflows in Banking sector based on total inflow (in Rs million)	% of FDI inflows in Banking sector based on Service sector (in Rs million)
	Amount	Growth Rate	Amount	Growth Rate		
	(In Rs million)	(In Rs)	(In US$ million)	(In US$)		
Jan-Dec **2014**	14337.1	1	230.37	1	0.81	7.99
Jan-Dec **2015**	983.06	0.07	15.79	0.07	0.04	0.24
Jan-Dec **2016**	78740.35	5.49	1175.14	5.10	2.53	11.51
Jan-Dec **2017**	14764.55	1.03	229.11	0.99	0.52	3.95

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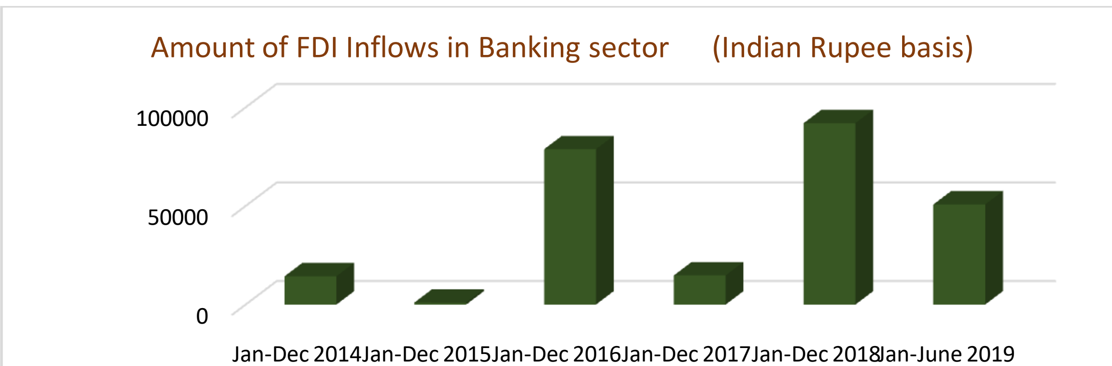
Jan-Dec **2018**	91941.69	6.41	1394.78	6.05	3.16	15.53
Jan-June **2019**	50732	3.54	729.76	3.17	2.67	13.49

Source :Department for Promotion of Industry and Internal Trade (DPIIT),DIPP-SI- News- Letters, statement on sector-wise FDI equity inflows.

Fig 3.1: Amount of FDI in Bankingsector (In Rs.) **Fig 3.2: Amount of FDI in Bankingsector (InUS$)**



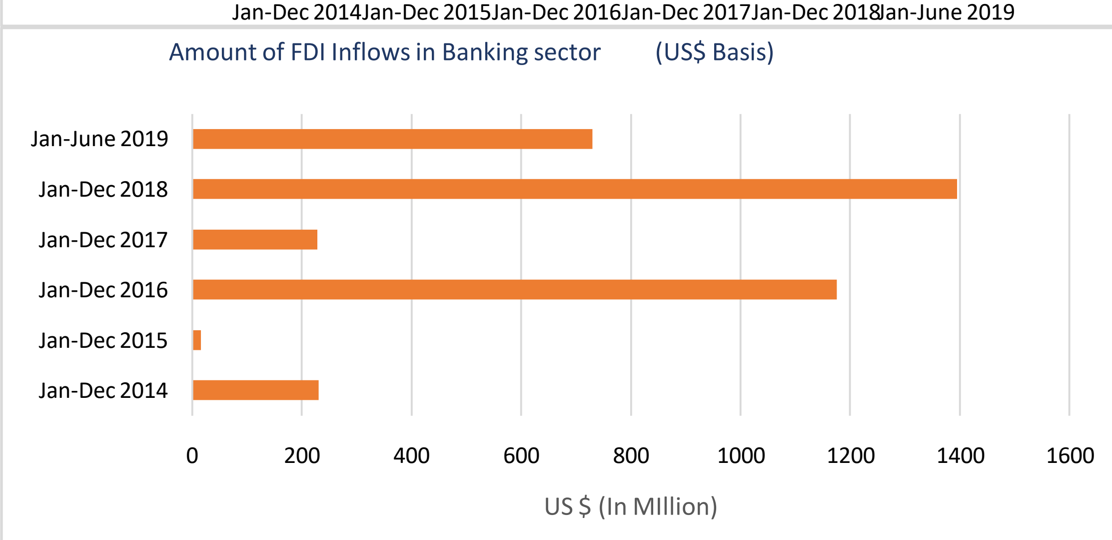


Fig 3.3: Growth Rate of FDI in Banking sector

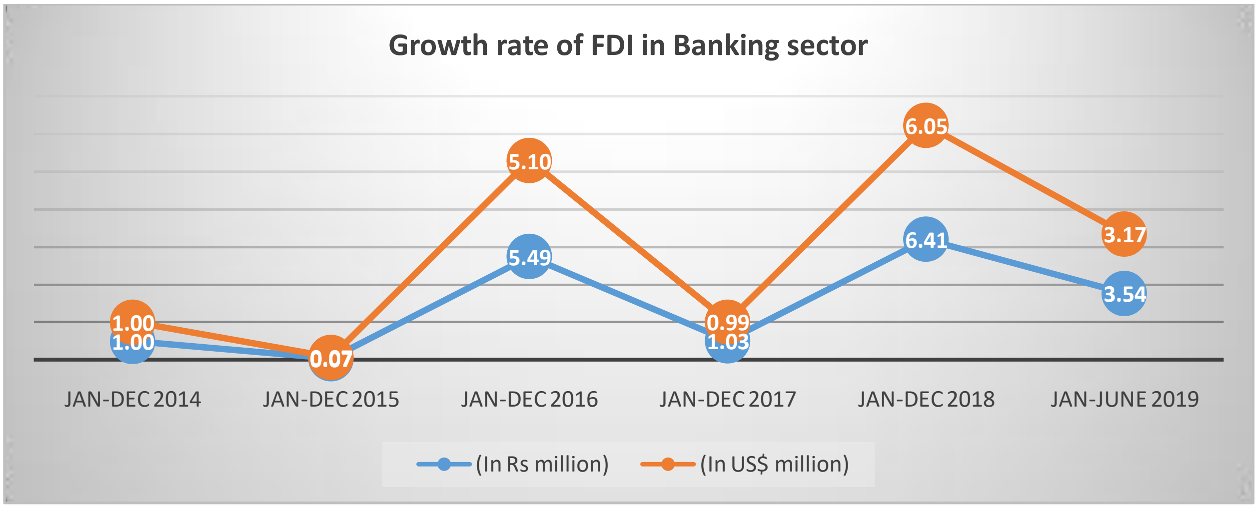
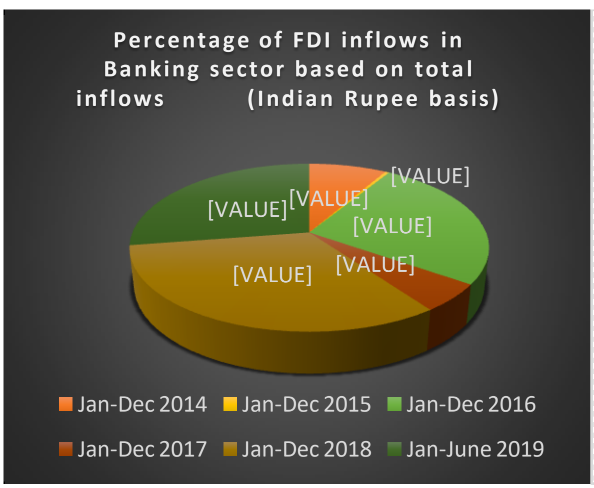


Fig 3.4: % of FDI in Banking sector based on Net FDI **Fig 3.5: % of FDI based on service sector**



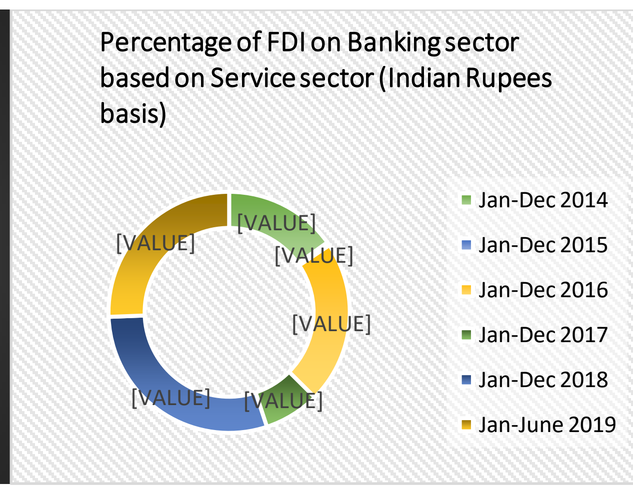


Table No:3 showed inflows of FDI in Banking sectorduring the calendar yearJanuary 2014 to June 2019.This table also give data about total amount and growth rate of FDI in banking sector and also give lights on to percentage of FDI in banking sector on the basis of Net FDI and on the basis of total service sector. In January-December 2014, it was noted that in banking sector of

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India the total FDI inflows was Rs.14337.1 million and thecorrespondingpercentage of FDI in banking sector on the basis of Net FDI and service sector wasRs.0.81million and Rs.7.99 million respectively. Unfortunately in January-December 2015, the inflow of FDI in banking sector was reduced to Rs.983.06 million, resulted a growth rate 0.07 times. But there was a hectic arise of FDI in banking sector noted in Jan-Dec 2016, which amounted to Rs.78740.35 million with a corresponding growth rate 5.49 timesand thecorrespondingpercentage of FDI in banking sector on the basis of Net FDI and service sector wasRs.2.53million and Rs.11.51 million respectively. Again in 2017. There was a drastic reduction in FDI in banking sector was noted which reduced to Rs.14764.55 million with growth rate of 1.03 times. In 2018, the banking sector recorded the all-time inflows of FDI amounted to Rs.91941.69 million with the growth rate of 6.41 times. Finally the secondary data for the June 2019 was available whose FDI inflows in banking sector was noted to Rs.50732 million with a growth rate 3.54 times and expected that growth rate will at least multiple in remaining six months.

FINDINGS & CONCLUSION

India is regarded to be the third most preferred investment destination in the world after China and United States. From the above study, it is observed that Service sector is one of the commanding sectors in India that attracting more FDI inflows. Likewise its principal sub sector Indian banking sector also gained huge amount of foreign currencies through elevated FDI inflows. It is also found that, during period from January to December, 2018 Banking Sector received FDI inflows of Rs. 91941.69 million which account for 15.53 per cent of total FDI in Service Sector and 3.16 per cent of total FDI inflows in India. FDI inflows in Banking Sector during the calendar year 2018 is very high when compared to other calendar years. Likewise in June 2019 FDI inflows in banking sector was around Rs.50732 million with a growth rate 3.54 times than the expected growth; the growth rate is expected to remain in the same pace in the remaining six months of the present calendar year.While analyzing it has also been found out that there has been a drastic increase in the growth rate of Net FDI inflows, FDI inflows in total service sector especially in banking sector on year to tear basis. The charisma of honorable Prime Minister Mr. Narendra Modi is visible in the hectic reason of elevated growth of FDI whose visit to foreign country is commendably high. Likewise the effect of demonetisation was another factor that leads to the progress of FDI throughout the year 2018. A strong inflow of foreign investments helps to improve the country's Balance Of Payments situation and strengthens the value of rupee against global currencies, especially the United States (US) dollar. For this, the government has to take some more strict measures in connection with timeliness for approvals and streamlining procedures to improve ease of doing business in the country and to attract foreign investments.

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