The alarming fall of India's FDI

RBI reports that repatriation of capital in 2017-18 was the highest since 2004-05

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HOW MUCH OF FDI has India received in the previous fiscal? This has become a contentious issue ever since the two main sources of FDI data, RBI and the Department of Industrial Policy and Promotion (DIPP), have unveiled their respective numbers. Although RBI bulletin had provided FDI inflow numbers in early June, discussions on FDI inflows began only after DIPP released its numbers at the end of the month. DIPP reported that in FY18, foreign equity inflows, the largest component of FDI inflows, were \$44.8 bn, as against \$43.4 bn in the previous fiscal. This growth of barely 3% was the slowest in the past quinquennium. But RBI, which is DIPP's source, provided not one, but three sets of figures on foreign equity inflows.

RBI released its first set of numbers in the June 2018 issue of its Bulletin (June Bulletin) showing that equity inflows during FY18 were \$45.7 bn. A second figure, in the July 2018 issue of the Bulletin (July Bulletin), lowered the inflows figure to \$45.5 bn, implying that equity flows increased by less than 2%. This revision of figures is not surprising since RBI routinely revises its figures; but revision by \$200 mn seen in equity flows is rare, given the robust statistical system of the central bank. RBI's third source, the Database on the Indian Economy (Database) gives a far lower figure for equity inflows, \$42.5 bn. This figure is not only \$3 bn lower than the June Bulletin figure; it is lower than the equity inflows in the previous fiscal by more than 5%.

Equity inflows are the largest component of FDI inflows, but according to the international benchmark set by the OECD/ IMF, there are two other components, re-invested earnings and 'other capital'. While re-invested earnings are undistributed profits of companies with FDI after these are capitalised, 'other capital' includes inter-company debt transactions. As regards to the overall FDI inflows, DIPP informs us that total FDI inflows in FY18 were \$61.96 bn, which matches with RBI's June Bulletin figure. As it had done in case of equity inflows, RBI revised the figures downwards in the July Bulletin, quoting a figure of \$60.9 bn. The third figure of the RBI, available in the Database, shows that FDI inflows were \$56.7, which is lower than the corresponding figure in 2016-17 by nearly 6%.

Repatriation/disinvestment of foreign investment

(\$ bn)	FDI inflows	Overall disinvestment	Disinvestment as a share of Inflows (%)	Foreign equity inflows	Foreign equity disinvestment	Equity disinvestment as a share of equity inflows (%)
2013-14	36.0	5.3	14.7	25.3	4.8	18.9
2014-15	45.1	9.9	21.8	31.9	9.6	30.1
2015-16	55.6	10.7	19.2	41.1	10.5	25.6
2016-17	60.2	18.0	29.9	44.7	17.3	38.7
2017-18	61.0	21.5	35.3	45.5	21.3	46.8

What do these figures tell us about FDI inflows in FY18? The DIPP and the June Bulletin reported an increase by 3% in FY18 over the previous year; the July Bulletin reported a 1.8% increase and the Database spoke of a 6% decline. Each of these scenarios compares poorly with the average increase in FDI inflows for the past four years, namely 15.4%. Figures produced by RBI cover another important dimension, usually glossed over in discussions of FDI. This concerns the level of repatriation of capital by foreign investors, often labelled as "disinvestment".

Our view is that the Government of India needs to take note of the trends in the repatriation of capital as well. In its July Bulletin, RBI reports that repatriation of capital in FY18 was as high as \$21.5 bn, the highest since this figure was first reported in FY05. The July Bulletin figure was marginally higher than that reported in the June Bulletin, but was considerably higher than the Database figure (\$19.1 bn). Equity disinvestment, according to the Bulletin, was \$21.3 bn. As compared to FY17, overall disinvestment in the previous fiscal increased by 19.7% and equity disinvestment was over 23%. But what the policy makers should be more worried about is that, as compared to the overall FDI inflows, disinvestment in FY18 was 35%, and in case of equity, disinvestment was almost 47%. Further, the rate at which disinvestment has increased in the recent past should be a greater source of concern than the absolute figure of disinvestment in FY18.

Two conclusions logically flow from the above discussion. The first is that trends in FDI inflows into India are showing signs of discordance that the policy makers need to consider seriously. While growth in inflows has considerably slowed down, from more than 23% in FY16 to below 2% (or even negative) in FY18, disinvestment by foreign investors has increased alarmingly. The second point is regarding the lack of consistency in reporting the key features of FDI by the various official agencies. Evidence-based policy making is the byword of the times, and it is therefore vitally important for these agencies to provide robust datasets to facilitate appropriate interventions.

Source: Financial Express, 21st July 2018