Foreign Direct Investment & Indian Banking Sector

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Abstract: - Indian banking had come a long way since India adopted reforms path. Today Indian Banks are as technology savvy as their counter parts in developed countries. The competitive and reform force have led to the emergence of internet, e-banking, ATM, credit card and mobile banking too, to let banks attract and retain customers. This apart retail lending has emerged as another major opportunity for banks. Due to globalization, liberalization and privatization mode, Indian banks going global and many global banks setting up shops in India, the Indian banking system is set to involve into a totally new level it will help the banking system grow in strength going into the future. Key words :- Investment, banking, globalization, development

1 INTRODUCTION

Indian banking had come a long way since India adopted reforms path. Today Indian Banks are as technology savvy as their counter parts in developed countries. The competitive and reform force have led to the emergence of internet, e-banking, ATM, credit card and mobile banking too, to let banks attract and retain customers. This apart retail lending has emerged as another major opportunity for banks. Due to globalization, liberalization and privatization mode, Indian banks going global and many global banks setting up shops in India, the Indian banking system is set to involve into a totally new level it will help the banking system grow in strength going into the future.

2 FDI in the Global World

Foreign direct investment flows (inflows and outflows) have occupied a prominent place in the global economy. It is an important avenue through which investment takes place in any country. The importance of FDI extends beyond the financial capital that flows into the country. In addition, FDI can be a tool for bringing knowledge and integration into global production Chinas, which are the foundation of a successful exports strategy (1). It is also said that the FDI flows are vital for accelerating desired degree of growth and development. If this is so then it is essential first, to known FDI’s position of the world. The past few decades have witnessed dramatic increases in the world FDI flow. The world inflows and outflows of FDI in absolute terms have increased by showing upward trend. The world FDI annual growth rate of both in flows and outflows increased during 1996-2000 as compared to 1991-1995 from 20.0% to 40.1. The world FDI inflows and outflows in 2001 amounted to $ 735 billion and $ 621 billion respectively, It has increased from $ 203 billion and $ 233 billion respectively in 1990.
It is evident from table no 1.2 that more than 68% share of FDI in the world goes to developed nations in 2001. The share of developing nations was just 27% in 2001. However it is improved as compared to 1999-2000. In 1999-2000 the share of FDI in developed and developing countries was in the ratio 80:18.

Table No 1.3 shows that there was more than ten fold increase in the foreign direct investment during 1992-2005. The inflows of FDI increased from Rs. 1094 crore in 1992-93 to Rs. 11726 crore in 2004-05. The highest FDI was reported in 2001-02 amounted Rs. 19361 crores. The FDI trend shows that FDI has increased in 1991-92 to 1997-98 from Rs.1094 crore to Rs. 13548 crore. After 1997-98 it declined upto 1999-2000.

The above table shows that the share of T-10 countries FDI inflow during August 1991 to Dec. 2004, Mauritius Rs. 38024.76 crores (28.90%) stand first followed by USA Rs. 18048.05 (13.48%) second and further table shows that third most important contributor is Netherland whose FDI inflow was Rs.7940.06 crores with 5.93% followed by Japan. The FDI inflow from Japan was Rs. 7900.06 crore with 5.90%. The first four countries FDI inflow to India is more than 50%. At fifth place is the UK who contribute to the extent of 7013.66 crore (5.24%). France, South Korea, Singapore and Switzerland are the next countries in the top-ten. The US which allocates $ 450 billion per year to military spending for bombing Somalia, Afghanistan and Iraq and allocates merely $12 billion per year to development assistance for poor countries is the biggest beneficiary in respect of FDI and stand first in rank for FDI. But the rank of US for India’s FDI inflow is second. Under the situation it is interesting to understand and know from India’s point of view that, who are the first five top states in the India who are attracted major share of FDI inflows (see table 4) they are Maharashtra who stand first with 14.8% shares, Delhi second) with 12.2 % Tamilnadu (9.05 %), Karnataka (7.63 %) & Gujarat (4.97 %).

3 IMPACT ON BORROWAL ACCOUNTS

After LPG Sponsored FDI model adoption, 1991-1996 year have witnessed a dramatic increasing in borrower Account at initial years and then it has witnessed decreasing trend. The position of borrower accounts on banking, industry and on the government is presented in Table-No: 4

Table No. 1.4 NO. OF BORROWAL ACCOUNTS IN BANKING INDUSTRY

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Accounts in &quot;000&quot;</th>
<th>% change to Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>32113</td>
<td>3.94</td>
</tr>
<tr>
<td>1995</td>
<td>35181</td>
<td>9.63</td>
</tr>
<tr>
<td>1996</td>
<td>37946</td>
<td>6.92</td>
</tr>
<tr>
<td>1997</td>
<td>38882</td>
<td>-5.09</td>
</tr>
<tr>
<td>1998</td>
<td>35116</td>
<td>-3.97</td>
</tr>
<tr>
<td>1999</td>
<td>35613</td>
<td>-2.01</td>
</tr>
<tr>
<td>2000</td>
<td>35087</td>
<td>-2.65</td>
</tr>
</tbody>
</table>

It is clear from above table that borrower account were increased from 52113 in 1990 to 65862 in 1993 after this they are declined to 58097 in 1996. Percentage previous year evident that borrower accounts trend is going towards negative direction. It has changed from 15.03% in 1991 to –2.45 in 1996. Thus the impact of LPG sponsored FDI model’s impact on number of borrower account is negative.

4 IMPACT ON BRANCHES AND TIME DEPOSITS

Table no five shows that during 1985-86 to 1990-91 period average branches were increased by 6933, whereas during 1992-93 to 1997-98 period branches were increased an average 3049. The pre FDI model period growth rate in branches was 13% which was come down to 40% in post FDI model period. This is presented in Table no five.

Regarding time deposit table no. 1.5 further shows that time deposit rose to 344896 Crores during post FDI model period as compared to pre FDI mode period form 112341 Crores. This is positive impact. The growth rate for pre FDI model period was 127% which declined to 123% for the post FDI model period. However banks are facing stiff competition from private and foreign bank due to FDI inflow. As a result of this the growth rate in time deposit lowers down from 127% to 123%. In this way post FDI model period witnessing down words growth in branches and as well as in time deposit collection.

5 IMPACT ON PROFITABILITY OF DOMESTIC AND FOREIGN BANKS

Another important impact of FDI model policy is that at the end of June 1991 there were 24 foreign banks with 42 branches in the Indian financial market. This number had gone up to 140 foreign bank 182 branches as on June 1998 with total assets of Rs.10, 000 crores and with 3.1% profitability rate. Indian Banking branches are decreasing whereas foreign bank branches are increasing trends during FDI model phase. FDI is motivating factor to increase profitability. As FDI increases profitability increases Indian concern then it is positive impact whereas FDI increases foreign banks profitability increases at higher rate than Indian banking profitability rate then it is negative impact on Indian banking system, it is assumed here. The result of profitability of foreign and domestic bank is given in Table No: 6.

It is revealed from table no.-1. 6, that the profitability of Indian Banking as well as Foreign banking in increasing trends. The pre FDI mode period profitability of Indian banking was 0.2 which increased to the extant of 1.3 in post FDI model period. It means the impact of FDI model is positive on both Indian banking and foreign banking profitability. However the rate
of profitability of foreign bank in higher than Indian bank in pre and post FDI model period. It is still higher in post FDI model period. Therefore, it can be said that impact of FDI model on Indian banking profitability is not much or higher than foreign bank. In fact it is lower an hence to that extent. It can be treated as Impact is negative.

Conclusions and Suggestions
5. FDI in service sector is only 8.20%
6. The borrowal account in the banking industries is following down since 1990. Annual growth rate of borrowal account is negative since 1993 and onwards.
7. The LPG sponsored FDI Model’s impact on foreign banks and Indian bank’s profitability is positive
8. The Impact of FDI on India Banking sector is negative except profitability.

6 SUGGESTIONS:
1. Give freedom 80% only and no automatic FDI inflow
2. FDI must be considered in poverty reduction, unemployment reduction and primary education and priority sectors of banking.
3. FDI inflows in emerging markets typically ride on the back of privatization. The rise in FDI in Latin America and to some extend, in East Asia in recent years is the result of privatization of domestic banks, following banking crises and bank failures

1. FDI in the world is increased as compared to 1991 in 2001.
2. FDI share of development countries is higher than developing countries to extend of 68 % in 2001; it was 80 % in 1999-2000.
3. FDI inflow of the USA is the highest in the world
4. The inflows of FDI increased from Rs.1094 crore in 1992-93 to Rs.11726 cr in 2004-05 in India. but our study shows that India have crises nor is the biggest chunk of the sector, state-owned banks available for foreign acquisition yet. Therefore remain in this status is advisable.

7 REFERENCES:
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