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REVIEW OF RESEARCH

GROWTH OF FDI IN BANKING SECTOR WITNESSING PARAMOUNT ROLE IN ACCELERATING THE INDIAN ECONOMY

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ABSTRACT

In the rapidly changing economic environment, Foreign Direct Investment (FDI) is used as the stimulus for growth in the most developing countries including India. Globalisation has engulfed all the sectors into its fold, out of which the banking sector is a crucial one. FDI in Indian Banking Sector has a lot of opportunities as well as challenges. Foreign Direct Investment (FDI) is considered to be the lifeblood of economic development mainly for the developing and underdeveloped countries. With the start of globalization, many developing countries, mostly those in Asia, are witnessing a huge flow of FDIs during the past two decades. As compared to other Asian countries India witnessed the FDI inflows much later, but ever since India have been a hub and an attractive FDI destination. Foreign investors in the world generally realized their direct investments to foreign countries when they were able to acquire whole shares of host country's enterprises in the beginning. However, at the present time, the importance of the control is minimized and even foreign investors are willing to own host country' enterprises jointly with other investors. This paper focuses on .

KEYWORDS : *Balance of Payment, Economic Infrastructure, FDI, Indian Banking, Indian Economy.*

INTRODUCTION

The meaning of FDI has shifted from "control" to "lasting interest". The lasting interest concept involves long-term relationship between home country's investors and host country's enterprises with a considerable degree of influence over the management of the host country enterprise. According to the OECD and IMF, FDI takes place when a foreign investor has significant influence or at least 10% of the ordinary shares of an incorporated firm in a home country. However, some countries ignored this definition of FDI. In other words, there is no globally or unique definition of FDI in the world. In addition, sometimes it is difficult to identify whether foreign investment is a direct of portfolio investment because information about the role of foreign investors may not be clear. "Foreign Direct Investment is the category of international investment in which an enterprise resident in one country (the direct investor) acquires an interest of at least 10% in an enterprise resident in another country (the direct investment enterprise)." According to UNCTAD, subsequent transactions between affiliated enterprises are also direct investment transactions. Broadly speaking, FDI is a type of international capital flows from one country to another.

FDI has direct and indirect impacts on economic variables. But these impacts might differ according to types of FDI. Therefore, we briefly define the types of FDI. *Greenfield FDI* includes the investments of foreigners by constructing totally new facilities of production, distribution or research in the host country. On the other hand, the investments of foreign investors into existing facilities in the host country are defined as *Brownfield FDI*. Brownfield FDI is sometimes classified as Mergers & Acquisitions. Indian Banking Sector has created very important platform on the development of economy of India and in forming wealth to the economy. In 2008 when United States of America and world economy got into trouble, the financial sector of India also got affected but only Indian banking sector maintained its business because of the better controlled system and saving habits of Indian middle man.

Indian banking system is totally dissimilar from the other nation of Asian region because India's unique geographical, social, economical conditions. India has an unbalanced system of income and expenditure. In India near about 30 to 35 percent of population live in metro cities and urban areas and rest of 60-65 percent spread in several semi-urban and rural areas between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural cities. Foreign Direct Investment acts as a bridge to fulfill the gap between investment and saving. In the process of economic development in India, FDI is painstaking as a developmental instrument, which is capable of help in achieving independence in different areas of the economy. When new industrial policy was proclaimed in 1991, big volume of incentives and concession were arranged for the flow of foreign capital to India. Foreign Direct Investment acts as a bridge to fulfill the gap between investment and saving. India's economy policy framework is the combination of socialist and capitalistic features. All these features you can see in the size and structure of Indian banking system. In order to accomplish the want of administration, government planning and course of action it has been subjected to various nationalization schemes diverse time.

FDI IN INDIA

The initial entry of FDI in India can be loosely considered from the time of establishment of East India Company of Britain during the colonial era in the 17th century when the British merchants approached the Mughal Emperor for establishing factory in Surat city of India. Along with them the British brought on the Industrial revolution to India which led to development of transportation (Railways and Roadways) and communication systems albeit for their benefits. The new innovations and inventions happening around the European countries got introduced to the Indian subcontinent too.

FDI was introduced in the year 1991 under Foreign Exchange Management Act (FEMA), by then Finance Minister Dr. Manmohan Singh. It started with a baseline of $1 billion in 1990. India is considered as second important destination for foreign investment. The major sectors that attracted FDI are services, telecommunication, construction activities and computer software and hardware.

India in 1997 allowed Foreign Direct Investment (FDI) in cash and carry wholesale. Then, it required government approval. The approval requirement was relaxed and automatic permission was granted in 2006. From 2000 to 2010, Indian retail has attracted about $1.8 billion in Foreign Direct Investment, representing a very small 1.5% of total investment flow to India. India has received till now a total foreign investment of US$ 306.88 billion since 2000 with 94 percent of the amount coming during the last nine years. In the period 1999-2004, India received US$ 19.52 billion of foreign investment. In the period 2004-09, foreign investment in the country touched US$ 114.55 billion, further increasing to US$ 172.82 billion between 2009-Sept 2013. During FY 2015-16, India attracted FDI worth US$ 22.42 billion.

FOREIGN DIRECT INVESTMENT AND INDIAN ECONOMY

At present global competitive economy circumstances no country in the world is self sufficient and self reliance. Most of them largely depend on other nations in some way. Advance economy with surplus reserves want to integrate other nations who have minerals reserves and skilled labours. Emerging economy in hope to become self sufficient requires fund for their economical promotion and consolidation, undeveloped economies requires funds for their survival. Thus financial integration through FDI played paramount role and accelerate the respective economies. With growing globalization most of the Asian nations have welcomed the FDI and witness surge in its inflow. India with conservative approach to globalization has been found latecomer to the FDI. It overall market potential, cheap skilled workforce with mineral reserves and safe marine routes along with liberalized policy regime sustained its attraction as a most preferred destination for foreign investors. Thus, the government to attract more FDI re-amended its policy in 2015-16 and took several policy incentives. Considering all economical aspects important for nation integrated growth and overall development this study has been undertaken by the author's to examine and evaluate the impact of amendments and policy initiatives on nation's economy.

Government of India visualized corporate vision and mission and articulated core objectives of corporate financial requirement and liberalized the FDI rules and regulations. To provide strength to the tectonic changes in economic reforms and to accelerate the nation's overall economy government of India passes legislations, rules, regulations, ordinance and amendments in Foreign Direct Investment (FDI) law time to time and strategically enabled the domestic industrial and other economic sector to meet the financial requirement through diversified resources including FDI which is non-debt financial capital and is widely preferred by the firms when they became multinational. With following the government policies and under the constant vigilance of regulators like RBI, SEBI and IRDA, Foreign Direct Investment (FDI) gradually occupied the core status in financing the economic activities. With liberalized FDI rules and restructured financial sector domestic industries and Indian corporate collectively explored untapped resources and found it more lucrative and transparent. Now Indian corporate is free to evolve their own system of financing working capital and can freely raise finances through Foreign Direct Investment (FDI).

Its impact on nation's economy largely depends upon nation's regulated policies and the sector in which FDI has been directed and utilized. Returns on FDI depend upon longevity of investment. Many firms have long gestation period and require funds for long period and return in such firms is possible when they become operational. Foreign Direct Investment in stock market response immediately but this inflow is for short period of time and do not contribute in nations growth and development accept it appear in nations balance sheet. FDI which stay in nation's economy for some time only contribute in economic growth.

FOREIGN DIRECT INVESTMENT AND INDIAN BANKING

Indian Banking Sector is proving support since 1786 till today with the guidelines of RBI and Indian government. It has also proved itself during global economic crisis with its strong policies and procedures without upsetting Indian financial system. Development and diversification in banking sector has now across all over the globe. Over the last decade, the fast rate of economic growth and progressive policy liberalization has made India an eye-catching destination for world's investments. United States of America have been at the front position of investments in India power up the partnership between the two largest democracies in the world.[7] Apart from all the above, since the capital raising capacity in India is very less to take the Indian banking sector to worldwide we require investment from abroad. Last but not the least RBI should make policies like such that FDI should not over write the regulations of RBI and should become as a result in the growth of Indian economy.

Indian banking has undergone a sea change after liberalization and reforms. Liberalisation and reforms paved the way to Foreign Direct Investment into Indian Banking Sector. It is more than a decade now that have we have received Foreign Direct Investment (FDI) in Banking and hence it is important to see the impact on the Indian Banking. The present study is dedicated to analyze and evaluate the performance of Indian FDI and Non-FDI banks in the post liberalization era. FDI is considered as important source of financing the growth of LDC's. It was advised by policy makers in India to throw wide open the doors to FDI which is supposed to bring huge advantages with little or no downside. FDI flows significantly influences the growth of GDP and its impact is relatively higher in India. FDI has promoted exports and there are no significant inter-country differences in propensity of FDI to export and import increase with FDI but less than proportionately for which there are no inter-country differences.

FDI is considered to be important contributor to the performance of Indian Bank. Also that the performance of FDI is Indian Banks are better than that of non-FDI Banks and however FDI Banks contribution to exports is not great and their import propensity is quite high.[8] It was discussed and now allowed to deregulate FDI restrictions further. Policymakers in India as well as external observers attach high expectations to FDI. FDI worked wonders in China and can do so in India. The Deputy Secretary if OECD reckoned at the OECD India Investment Roundtable in 2004 that the improved investment climate has not only resulted in more FDI inflows but also in the restrictive economic policies followed by the countries have reduced the benefits and increased the costs of FDI because of costs of regulations, economic costs of production, inefficient project structures, encouragement of the use of transfer pricing to repatriate profits and fiscal losses from tax incentives.

The “agglomeration” factor has emerged as one of the most important determinants of regional distribution of FDI flows within a country during the last two decade.[9] Agglomeration economies emerge when there are some positive externalities in collocating near other economic units due to the presence of knowledge spillovers, spcialized labour markets and supplier network. Statistical results from several studies focusing on developing economies strongly support the argument that foreign investors are inclined to favour such locations that could minimize information costs and offer a variety of agglomeration economies. A common finding in recent studies is that regions with a relatively higher existing stock of foreign investment are more likely to attract further investments, which confirms the importance of positive agglomeration externalities. Therefore, it emerges the while globalization suggests that the location and ownership of production should become geographically more dispersed, other economic forces are working towards a more pronounced geographical concentration of such activity both within particular regions and countries. In the above theoretical backdrop, a survey of the empirical literature has been carried out highlighting select country experience and the experiences in the Indian context.

FDI is unlikely to work wonders if only remaining regulations were relaxed and still more industries opened up to FDI. That this is where policy makers may contribute to maximizing the benefits of FDI in India. Their contribution has less to do with specific FDI policies. Rather the policy challenge is to improve financial sector development seem to be important in this regard. Following the liberalization of the Foreign Direct Investment policy in India in the early 1990s, FDI to India has significantly in the last decade. In view of this, the various studies are examined which analyze the major determinants affecting regional distribution of FDI flows in India. The analysis reveals that market size, agglomeration effects and size of manufacturing and services base in a state, have significant impact on FDI flows. The impact of taxation and cost of labour is negative. While the impact of quality of labour is ambiguous, infrastructure, however, has significant positive influence on FDI flows. With the Foreign Direct Investment (FDI) is considered to be the lifeblood for economic development as far as the developing nations are concerned. FDI to developing countries in the 1990s was the leading source of external financing and has become a key component of national development strategies for almost all the countries in the world. FDI is considered to be an essential tool for jump-starting economic growth through its bolstering of domestic capital, productivity and employment. The reliance on FDI is rising heavily due to its all round contributions to the economy. The important effect of FDI is its contributions to the growth of the economy. FDI has an impact on country’s trade balance, increasing labour standards and skills, transfer of new technology and innovative ideas, improving infrastructure, skills and the general business climate.

India’s liberalized FDI policy 2005 allows up to a 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and foreign direct investment (FDI). The real-estate sector is showing upward moving growth curve as a result of a booming economy and liberalized FDI regime. In March 2005, the government amended the rules to allow 100 per cent FDI in the construction business. This automatic route has been permitted in township, housing, built-up infrastructure and construction development projects. Putting to rest speculations on raising FDI limit in Economic Affairs Secretary Subhash Chandra Garg said there is no such proposal and also ruled out their privatization. “There is no such proposal for relaxing FDI limit in PSBs (Public Sector Banks)," Garg told in an interview. Currently, 20 per cent foreign investment is permitted in PSU Banks under government approval route. However, the same is 74 per cent for private sector banks provided there is no change of control and management of the investee company. When asked if the government is considering any proposal for privatizing state-owned banks, Garg said: "I don't think there is any proposal for privatization of any bank." According to experts, increase in foreign investment would result in flow of capital which PSU banks require urgently. The government can provide limited support to these banks as the resources are limited. Last year, the government announced an aggressive Rs. 2.11 lakh crore capital infusion for the NPA-hit public sector banks (PSBs) over a period of two years. Out of this, the government has already infused Rs. 88,139 crore in 20 PSBs in 2017-18, with IDBI Bank getting the most-Rs 10,610 crore. While State Bank of India got Rs. 8,800 crore, Bank of India received Rs. 9,232 crore. UCO Bank received Rs. 6,507 crore; Bank of Baroda- Rs. 5,375 crore; Central Bank of India- Rs. 5,158 crore; Canara Bank –Rs. 4,865 crore; Indian Overseas Bank – Rs. 4,694 crore and Union Bank of India- Rs. 4,524 crore. Non-performing Assets (NPAs) of PSBs have increased to Rs. 8.1 lakh crore as of December 2017, from Rs. 2.78 lakh crore in March 2015. In the last three-and-a-half years, the government pumped in more than Rs. 51,000 crore capital in PSBs.

The RBI adopted his notification from the guidelines issued by the Ministry of Commerce and Indian Industry under the previous government. Indian Government increases the limit of FDI in private sector bank to 74% under the automatic route. This roadmap of RBI demarcates two phases for Foreign Bank presence. During the first phase, between March 2005 and March 2009, permission for acquisition of state holding in Indian private sector banks by eligible foreign banks will be limited to banks identified by RBI for restructuring.

The notifications announce the overseas bank (Foreign Bank) will be permitted to set up their presence by way of setting up of conversion of the existing branches in to a wholly owned banking subsidiary. Government provides appropriate amending legislation will also be proposed to the banking regulation act 1949. Impact of these all announcements where the global banking industry turbulent times in 2007 and 2008. The impact of the economic reduces speed on the banking and insurance service sector in India has so far been restrained. In this parliamentary session of winter new government of NDA leading with the Prime Minister Mr. Narendra Damodar Das Modi wants to fulfill a pledge to allow companies like New York life insurance, Met Life Insurance to raise investment in local companies to 49 per cent from 26 percent. Left parties do not want overseas investors to have large voting rights in private sector banks.

During the period 2015-16 highest amount of FDI went to financing sector. In that financial year Foreign Direct Investment in financial sector increased with 1760 US million dollars. This is show that for overseas investors financial sector is creating attraction and with the same time it will attract more investors. Foreign Direct Investment is non-debt inflow which will directly solve the problem of capital base of the Indian Banks.

BENEFITS OF FDI IN BANKING SECTOR IN INDIA

1. Technology transfer from overseas nation.
2. Comfort better capitalization.
3. Reduce financial instability in the banking sector of India.
4. Assure better risk management in financial sector.

INVESTMENT PERCENTAGE IN BANKING SECTOR

It is known that, India's growth story will never meet the reality without the financial support. There are 70% increase in FDI in financial sector during year 2011 compared to 2010. But the big downbeat that is keeping FDI's venture over whelming in this sector is convertibility factor. Due to delay of the projects, money is getting locked in projects without developing any return. Too many old rules regulations and administrative procedure are keeping project to run at required pace. Investment government has also taken several step to increase the FDI up to 100% by the way of RBI automatic route was a number of new sector in the session of 2005-06. These all steps have been contributing towards raising foreign direct investment.

Indian banking sector is proving support with the guidelines of RBI and Indian Government. It has also proved itself during global economic crisis with its strong policies and procedures without upsetting Indian financial system. Development and diversification in banking sector has now across all over the globe. Over the last decade, the fast rate of economic growth and progressive policy liberalization has made India an eye catching destination for world's investments. United States of America have been at the front position of investment in India power up the partnership between the two largest democracies in the world. Apart from all the above, since the capital raising capacity in India is very less to take the Indian banking sector to worldwide we require investment from abroad. Last but not the least RBI should make policies like such that FDI should not over write the regulations of RBI and should become as a result in the growth of Indian economy.

In this paper focuses has been given on theoretical aspects of FDI in Indian Bank during the last twelve years, determinants and need of FDI in Indian Banking Scenario. In has been one of the developing countries and has managed to show a positive GDP growth even during the recession period. It has comparatively performed well, then the average growth rate of world GDP. According to UNCTAD in its World Investment Report 2016 "if the situation continues to improve, India is likely to be among the most promising investor-home countries in 2016-18 as well as the third highest economy for FDI in 2016-18."

GROWTH OF FDI IN BANKING SECTOR

The Banking sector continues to remain a highly dominant sector in India in spite of financial slowdown. Because of globalization, many Indian banks are competing at global level on the virtue of their products and sound financial status. The Banking Sector in India has undergone many drastic changes. Initially, Indian government has contributed to the equity of a large number of public sector banks in order to enhance their capital adequacy levels. After that, Government has tried to improve the structure of the Indian banking sector by offering licenses to latest generation of private sector banks.

Foreign Direct Investment plays an important role for the economy of the host country as it not only provides opportunities to enhance economic development but also opens several doors to optimize national earnings by employing all the resources effectively. FDI has contributed a lot in enhancing efficiency in the banking sector, creating innovative financial products and improving capitalization of banks by making them adaptable to changing market conditions. FDI inflows recorded a negative growth of 38 per cent in 2012-13. A report said that FDI in India decreased to USD 40 billion in 2017 from USD 44 billion in 2016. According to experts, it is crucial to revive domestic investments and further ease of doing business in the country to attract foreign investors. FDI in Indian banking sector has lot of opportunities as well as challenges. With the rise in International service transactions and economic integration, the banking services befitted as crucial activities for any business. This has further led to high opportunities for FDI in the Indian banking sector.

The RBI's decision to allow Foreign Direct Investment in India banks, the lifting of sectorial caps on foreign institutional investors and a series of other policy measures could ultimately lead to the privatization of public sector banks. The series of policy announcements in recent years promises to unleash a shakeout in the Indian Banking Industry. A major policy change, effected through an innocuous "clarification" issued by the Reserve Bank of India (RBI) a few weeks ago, set the stage for the increased presence of foreign entities in the industry. The RBI's move to allow Foreign Direct Investment (FDI) in Indian banks has been followed by the announcement in the Union Budget lifting sectorial caps on Foreign Institutional Investors (FIIs).

There are also reports that the RBI's forthcoming credit policy may feature more steps for private and foreign banks. These changes are likely to hasten the process of consolidation of the banking industry. Although there is some doubt over whether the moves will have any immediate impact, there is consensus that the changes are merely a prelude to the wholesale privatization of the public sector banks (PSBs). IDBI, the promoter of IDBI Bank, has already announced its intention to relinquish control of the bank. Foreign banks have also mounted pressure on the Finance Ministry, seeking the removal of legislative hurdles that set limits to private and foreign holdings in PSBs. In the short term, the action is likely to be focused on the Indian private banks. Of the 100 banks in India, 27 are PSBs (including eight in State Bank of India group). There are 31 private sector banks, of which eight are of recent vintage (for example, ICICI Bank and HDFC Bank); and there are 42 foreign banks with branches in India. The RBI's decision is seen as enabling foreign banks to extend their operations, primarily by acquiring other banks.

PROBLEMS FOR LOW FDI IN BANKING SECTOR

- Lack of adequate infrastructure
- Stringent labour laws.
- Corruption
- Lack of decision making authority in Banking System
- High tax rate
- Indecisive government and political instability.

NEED FOR FDI IN INDIAN BANKING

As India is a developing country, capital has been one of the scare resources that are usually required for economic development. Capital is limited and there are many issues such as Health, Poverty, Employment, Education, Research and Development, Technology Obsolesce, Global Competition.

The flow of FDI in India from across the world help in acquiring the funds at cheaper cost, better technology, employment generation, and upgraded technology transfer, scope for more trade, linkages and spillovers to domestic firms. The following arguments are advanced in favour of foreign capital.

1) Sustaining a high level of Investment:

As all the under-developed and the developing countries want to industrialize and develop themselves, therefore it becomes necessary to raise the level to investment substantially. Due to poverty and low GDP the savings are low. Therefore, there is a need to fill the gap between income and savings through foreign direct investment (FDI) in Indian Banking Sector.

2) Technological Gap:

In Indian scenario Banks need technical assistance from Foreign source for provision if expert services, training of Indian personnel and educational, research and training institutions in the industry. It only comes through private foreign investment or foreign collaborations.

3) Understanding the initial risk:

In developing countries as capital is a scare resource, the risk of investments in new ventures or projects for industrialization is high. Therefore, foreign capital helps in these investments which require high risk in Indian Banking Sector.

4) Development of basic economic infrastructure:

In the recent years foreign financial institutions and government of advanced countries have made substantial capital to the under developed countries. FDI will help in developing the infrastructure by the bank in different parts of the country.

5) Improvement in the balance of payments position:

The inflow FDI will help in improving the balance of payment.

6) Foreign firm's helps in increasing competition:

Foreign industries always come up with better technology, process and innovations comparing with the domestic industries. They develop a completion in which the Indian banks will perform better in India.

CONCLUSION

The present paper introduces to study the impact of FDI policy on Indian Banking sector. The impact is measured by two ways. Firstly, on the banking sector by studying public sector and private sector banks together. And second by studying public sector and private sector banks separately in the light of FDI. The analysis tries to gauge the impact of FDI liberalization on the productivity and profitability of FDI and Non-FDI banks in India post liberalization.

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