Global headwinds take a toll on FDI inflows

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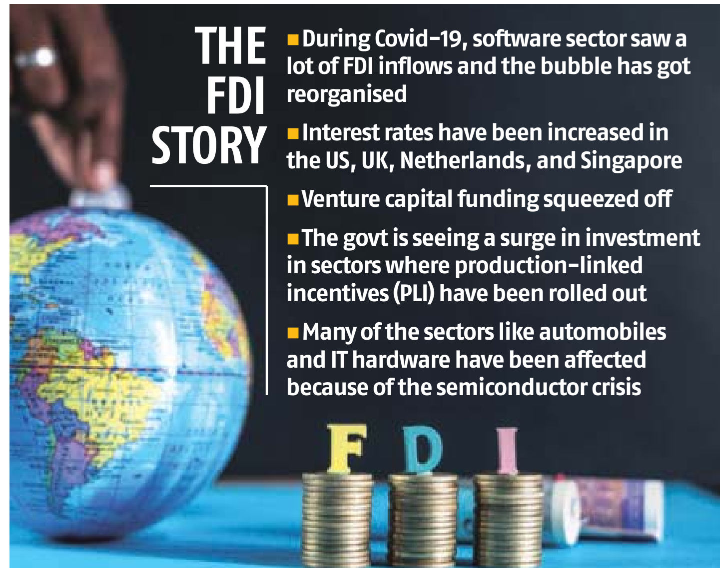
Multiple challenges triggered by the Russia-Ukraine conflict such as high inflation, expansionary monetary policy and recessionary trends in key developed economies are some factors that resulted in a drop in foreign direct investment (FDI) inflows into the country, a senior government official said on Friday.

"There are a lot of reasons globally that lead to a minor decline in FDI inflows. During Covid, we saw a lot of (FDI) inflows in the software sector and the bubble has got reorganised. The US has increased the interest rate from 0.25 per cent to 4.75 per cent in one year. Interest rates have also increased in the UK, Netherlands, and Singapore over last year. Venture capital funding has also squeezed off," the official said.

The statement comes in the backdrop of a 15 per cent contraction in foreign direct equity investments during the first three quarters of the current fiscal to $36.75 billion. Total FDI, which includes equity capital of unincorporated bodies, reinvested earnings and other capital, stood at $55 billion from $60.4 billion a year ago, an 8 per cent fall. During the last financial year, FDI equity inflows dropped by 1 per cent, after robust growth of 19 and 13 per cent during FY21 and FY20, respectively. According to the official, as far as 2022 is concerned, there has been a 4 per cent increase in FDI inflows. Going ahead, the Department for Promotion of Industry and Internal Trade (DPIIT) is confident that India will be able to attract more foreign investment in the coming months.



THE FDI STORY

- During Covid-19, software sector saw a lot of FDI inflows and the bubble has got reorganised
- Interest rates have been increased in the US, UK, Netherlands, and Singapore
- Venture capital funding squeezed off
- The govt is seeing a surge in investment in sectors where production-linked incentives (PLI) have been rolled out
- Many of the sectors like automobiles and IT hardware have been affected because of the semiconductor crisis

While a large number of proposals are in the pipeline, front loading of such investments will be seen in the next fiscal, with sectors such as new and renewable energy, pharmaceuticals and medical devices.

Besides, the government is also witnessing a surge in investment in sectors where production-linked incentives (PLI) have been rolled out. These include drugs and pharmaceuticals, food processing, and medical appliances. According to data released by DPIIT on Wednesday, Singapore emerged the top investing country with equity inflows worth $13.07 billion during April-December. This was followed by the United States ($4.95 billion investment), Mauritius ($4.73 billion), United Arab Emirates ($3.1 billion), the Netherlands ($2.16 billion) and United Kingdom ($1.61 billion). Also on the pecking order are Japan ($1.43 billion), Cyprus ($1.15 billion), Cayman Islands ($624 million) and Germany ($350 million).

Computer software and hardware manufacturing was the highest recipient of FDI at $8.07 billion. This was closely followed by the services sector — encompassing financial, banking, insurance, and outsourcing, among others — at $6.56 billion. The telecommunications and trading sectors garnered $5.33 billion and $4.14 billion, respectively. Another government official said that 60 per cent of foreign investment comes from five sectors — computer hardware, services, trading, construction and automobiles.

"Many of these sectors such as automobiles and IT hardware have been affected because of the semiconductor crisis," the official said.