FDI in equity from top 6 sources contracts in H1

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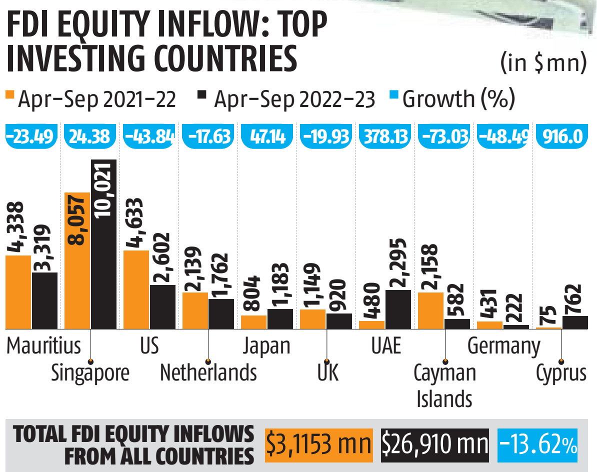
Foreign direct equity investments from six out of the top-10 investing countries/regions — Mauritius, United States, United Kingdom, Netherlands, Germany, and Cayman Islands — witnessed a contraction during the first half of the financial year compared to the year-ago period.

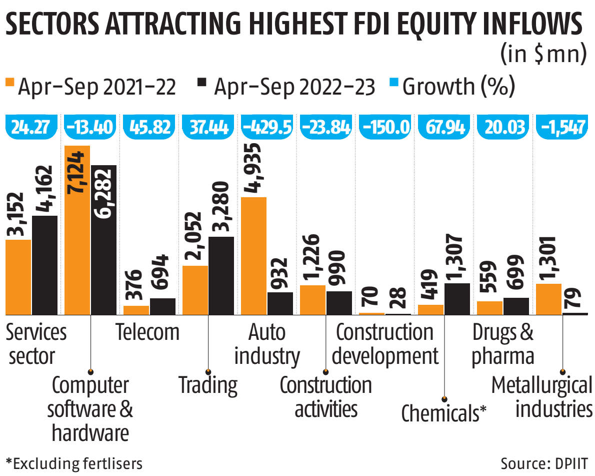
This was mainly due to challenges in the external sector, owing to quantitative tightening and recessionary trends across major developed economies.

Even on a sequential basis, foreign direct investment (FDI) in equity investments have consistently been on a downward spiral since April.

After witnessing a robust growth for two years, foreign direct equity investments during April-September declined 14 per cent year-on-year (YoY) to $26.9 billion, according to Department for Promotion of Industry and Internal Trade (DPIIT) data.

Total FDI inflow into India, which includes equity capital of unincorporated bodies, reinvested earnings and other capital, stood at $38.95 billion during April-September 2022. It was $42.2 billion a year ago, a fall of 8 per cent.





"If you look at FDI inflows from countries such as the US and UK, they have been declining. These are the countries where there has been quantitative tightening. This means, there are fewer resources that are there to be invested in emerging markets. It's a direct reaction that interest rates are hardening across the world," Madan Sabnavis, chief economist at Bank of Baroda, said.

"It is also important to note that in the past, when FDI inflows increased, there was quantitative easing and lots of funds were available to investors," Sabnavis added.

In case of an FDI, a company takes controlling ownership in a business in another country, thereby bringing in money, skills and technology.

This usually results in long-term growth, which makes it an important parameter for any country, in terms of its image as a solid investment destination. Going ahead, experts said that with limited resources at the hand of investors, FDI in equity is expected to slow down for at least till March, amid the recessionary trends.

Atul Pandey, partner at Khaitan and Co., said there are two reasons that have resulted in lower FDI inflows into the country. "The major reason is global recession and no one is sure until what time it will go on (amid Russia-Ukraine conflict). The other reason is that the bond market in the US is yielding better results.

As a result, investors are putting their funds in the domestic market or in developed jurisdictions, instead of developing nations such as India and China," Pandey said.

Some countries that showed positive growth include Singapore (24.38 per cent), UAE (378.13 per cent), Cyprus (916 per cent), and Japan (47.14), data showed.

According to Pandey, in the case of Singapore, several high net worth individuals (HNIs) and venture capital (VC) funds are using the Asian country as a jurisdiction to invest in India.

Investments from Cyprus, which saw over 10-times jump, have been driven by investments via sanction-hit Russia.

"With the fear of facing sanctions in the European and US markets, Russian investors have started looking at alternative jurisdictions such as India and China," he said.