

Foreign Investment

6.48 Net aggregate foreign investment inflows during 2002-03 were lower compared to the net aggregate inflows in 2001-02 (Table 6.2). The decline in foreign investment in 2002-03 is attributable largely to reduction in portfolio investment inflows. During 2003-04, however, the trends have been much more encouraging. Aggregate foreign investment inflows (net) were estimated at US\$10.1 billion during the first three quarters of 2003-04, which is more than three times the level of US\$ 3.1 billion recorded during the corresponding period of 2002-03. The higher foreign investment during 2003-04 is attributable to a sharp rise in net portfolio investment inflows.

6.49 The year 2003-04 indicates a significant departure from the trend observed in the contribution of direct and portfolio inflows to total foreign investment. The share of FDI inflows in total foreign investment rose sharply from 55.8 per cent in 2000-01 to almost 80 per cent in 2002-03. The shares indicate that longer-term FDI inflows have been the main contributors to foreign investment in recent years. However, during the first three quarters of 2003-04, FDI inflows accounted for less than 25 per cent of total foreign investment, while portfolio flows were responsible for more than 75 per cent. The change in the trend pattern becomes more evident in view of FDI inflows having accounted for almost 90 per cent of total foreign investment inflows during the corresponding period of 2002-03.

Table 6.12 : ECB approvals			
<i>(in US \$ million)</i>			
Sector	2001-02	2002-03	2003-04
Power	270.11	375.00	700.00
Telecom	0.00	341.00	1166.00
Shipping	0.00	0.00	0.00
Civil aviation	0.00	0.00	0.00
Petroleum & natural gas	750.00	0.00	0.00
Railways	0.00	0.00	0.00
Financial institutions	150.00	225.00	1015.00
Ports, roads, etc.	0.00	829.00	0.00
Other (including Exporters)	750.00	156.76	0.00
Approval given by RBI	243.00	1044.46	1108.47
Amount raised under auto-route facility	489.40	1263.74	4186.03
Total	2652.64	4234.96	8175.50
Source: RBI			

TABLE 6.13- PANEL A: NRI DEPOSITS – OUTSTANDING@*(in US \$ million)*

2003-04 (P) (end month)

SCHEME	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.
1	2	3	4	5	6	7	8	9	10	11	12	13
1 FCNR(B)	10,099	9,994	10,080	9,880	9,924	9,952	10,547	10,668	10,845	10,928	11,002	10,979
2. NR (E) RA	15,933	16,673	17,745	18,451	18,765	19,023	19,983	19,772	20,233	20,261	20,495	20,496
3. NR (NR) RD	3,274	3,063	2,965	2,796	2,646	2,496	2,397	2,209	2,111	2,027	1,912	1,773
TOTAL	29,306	29,730	30,790	31,127	31,335	31,471	32,927	32,649	33,189	33,216	33,409	33,248

TABLE 6.13-PANEL B : INFLOWS (+)/ OUTFLOWS (-) UNDER VARIOUS NRI DEPOSIT SCHEMES*(in US \$ million)*

2003-04 (P) (end month)

SCHEME	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.	APR.-MAR.
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. FCNR (B)	-100 (126)	-105 (90)	86 (102)	-200 (171)	44 (-42)	28 (66)	595 (68)	121 (-40)	177 (44)	82 (2)	74 (-21)	-22 (-40)	780 (526)
2. NR (E)RA@@	901 (592)	627 (377)	876 (466)	580 (607)	193 (484)	287 (501)	699 (767)	60 (474)	304 (435)	-67 (498)	191 (521)	-17 (473)	4634 (6195)
3. NR (NR) RD	-158 (-191)	-233 (-361)	-133 (-336)	-189 (-390)	-168 (-402)	-146 (-367)	-133 (-383)	-158 (-243)	-116 (-245)	-94 (-285)	-119 (-296)	-141 (-246)	-1788 (-3745)
TOTAL	643 (527)	289 (106)	829 (232)	191 (388)	69 (40)	169 (200)	1,161 (452)	23 (191)	365 (234)	-79 (215)	146 (204)	-180 (187)	3626 (2976)

P : Provisional**@** : All figures are inclusive of accrued interest**@@** : The inflows into NR(E)RA deposits during the years 2002-03 & 2003-04 may partly be due to crediting of maturity proceeds of the NR(NR)RD deposits which were discontinued with effect from April 1, 2002.**Notes:**

1. FCNR(B): Foreign Currency Non-Resident(Banks)
2. NR(E) RA: Non-Resident (External) Rupee Accounts
3. NR(NR)RD: Non-Resident (Non-Repatriable) Rupee Deposits
4. Figures in the bracket represent inflows (+) /outflows (-) during the corresponding month/period of the previous year. Inflows/outflows have been calculated by taking the monthly variation in rupee denominated deposits and converting those by monthly average exchange rate. All figures are inclusive of interest and valuation changes arising on account of fluctuation in non-dollar currencies against US Dollar.

Table 6.14: Sources of accretion to foreign exchange reserves since 1991-92*(in US\$ billion)*

Categories	1991-92 to 2003-04 (upto December 2003)
1. Reserve outstanding as on end-March 1991	5.8
2. Current account balance	-28.4
3. Capital account (net)	119.0
a. Foreign investment	60.3
b. NRI deposits	23.3
c. External assistance	11.8
d. External commercial borrowings (including short term credit)	12.1
e. Other items in capital account	11.5
4. Valuation change	4.4
5. Gold valuation	1.0
Total (2+3+4+5)	96.0

Source: RBI.

Note: Totals may not tally due to rounding off of decimal points.

Box 6.5 : Reserve adequacy

India's total foreign exchange reserves (including gold, Special Drawing Rights (SDR) and reserve with the IMF) have increased from US\$ 5.8 billion at the end of March 1991 to US\$ 118.5 billion at the end of April 2004. The rate of accretion to total reserves has been particularly remarkable during the last three financial years. In the three years since 2001-02, annual addition to total reserves has been US\$ 11.8 billion, US\$21.3 billion and US\$36.9 billion. The spectacular rise in reserves has drawn attention to the issue of what is an 'adequate' level of reserves for the country.

There are certain common indicators for determining the adequate level of reserves for an economy. These indicators aim to determine the extent of external vulnerability of a country and the capability of reserves in minimizing these vulnerabilities. These indicators are:

1. **Import adequacy:** The number of months of imports that can be financed by the reserves held by the country.
2. **Debt adequacy:** The ability of reserves to cover external payment obligations, particularly short-term debt liabilities. This is measured by the ratios of reserves to total external debt and short-term debt.
3. **Monetary adequacy:** The extent of capital flight that can occur in the event of a financial crisis. This is measured by the ratio of reserves to broad money and reserve money.

Since 1991-92, India has made significant progress in all the reserve adequacy indicators. The import cover of reserves has increased from just over five months in 1991-92 to almost 14 months in 2002-03. The reserves to external debt ratio has shot up from 10.8 per cent in 1991-92 to 72 per cent in 2002-03. Over the same period, the reserves to short term debt ratio has gone up from 130.4 per cent to 1650.9 per cent. The ratios of reserves to reserve money and broad money have improved from 24 per cent and 7.5 per cent respectively in 1991-92, to 97.1 per cent and 20.8 per cent respectively in 2002-03.

While the level of foreign exchange reserves held by India at present can be termed comfortable in terms of all the commonly applied adequacy indicators, it is also important to reflect upon the costs of holding reserves. Two issues are significant in this regard. These are the returns earned from deploying the reserves in various securities (according to the guidelines laid down by the RBI Act, 1934) vis-à-vis the interest paid on external debt and the costs of building up reserves through sustained open market operations. While the first issue entails the direct economic cost of holding reserves, the second, apart from involving costs of intermediation for the banking system, includes the consequences of prolonged sterilization on domestic money supply and price levels. Given the trends of sustained accretion, the issue of reserve adequacy requires to be addressed in the light of the costs and benefits likely to manifest from holding on to the current high level of reserves.

Table 6.15 : India's external debt outstanding								
Items	End-March						End-Dec.	
	1991	1999	2000	2001	2002	2003	2002R	2003 P
(US \$ million)								
Long-term Debt	75,257	92,612	94,327	97,504	96,012	100,301	101,476	106,357
Short-term Debt	8,544	4,274	3,936	3,628	2,745	4,569	3,837	5,773
Total External Debt	83,801	96,886	98,263	101,132	98,757	104,870	105,313	112,130
(Rupees crore)								
Long-term Debt	1,46,226	3,93,160	4,11,388	4,54,805	4,68,512	4,76,888	4,87,536	4,85,533
Short-term Debt	16,775	18,137	17,162	16,919	13,396	21,705	18,429	26,328
Total External Debt	1,63,001	4,11,297	4,28,550	4,71,724	4,81,908	4,98,593	5,05,965	5,11,861
(Ratio as per cent)								
External Debt to GDP	28.7	23.6	22.1	22.6	21.1	20.2	—	—
Short-term debt to Total External Debt	10.2	4.4	4.0	3.6	2.8	4.4	3.6	5.1
Short-term debt to Foreign Currency Assets	382.1	14.5	11.2	9.2	5.4	6.4	5.7	5.9
Debt Service to current receipts *	35.3	18.8	17.1	16.2	13.4	15.8	13.4	18.1
Concessional debt to total debt	45.9	38.5	38.9	35.5	36.0	36.8	36.1	36.4
R : Revised; P: Provisional ; * Figures for end-December relate to the period April-December only.								