IMPACT OF FDI ON PRODUCTIVITY OF PUBLIC SECTOR BANKING INDUSTRY, INDIA

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Abstract

Today Indian Banks are as technology savvy as their counter parts in developed countries. The banking sector plays an important role in the economic development of a country. It supplies the support –money that supports and fosters growth in all the industries. FDI is a tool for economic growth through its strengthening of domestic capital, productivity and employment. FDI also plays a vital role in the up gradation of technology, skills and managerial capabilities in various sectors of the economy. Foreign Direct Investment as seen as an important source of non-debt inflows and is increasing being sought as a vehicle for technology flows and as a means of attaining competitive efficiency by creating a meaningful network of global inter-connections. This paper discusses the FDI Equity inflows in Service Sector in India and also highlights the top countries which are investing in the Service Sector in the form of FDI. This paper analyzes the FDI inflows and impacts in Banking Sector from January, 2000 to December, 2017. The impact of FDI on Indian banks can be measured on the performance of a factor, i.e., its productivity. The productivity of all banks, in turn, is measured by Profit per Employee (PPE) & Business per Employee (BPE).

Keywords: *FDI equity inflows, productivity of Banking Sector, Indian Economy*

1. Introduction

Foreign Direct Investment has become sin-quo-non for the economic development of both developed and developing countries. The Foreign Direct Investment means "cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee economy. FDI is also described as "investment into the business of a country by a company in another country". Today, Indian banks are as technology savvy as their counterparts in developed countries. As a result of liberalization, privatization and globalization model, Indian banks have entered international market and global banks have become part of Indian market. Furthermore, FDI in the banking sector ensures to provide the benefits of technology transfer, better risk management, financial stability and better capitalization, integration into global economy, knowledge transfer and increasing competition.

2. Review of Literature

- **Singh Arjun and Singh Narender (2011),** says that Foreign Direct Investment is a tool for economic growth by its power of local capital, power of creating productivity and employment. FDI also plays a very important role in the polishing and upgrade of skills, technology and capabilities of management in various sectors of the economy. They also analysis that since 1991 FDI inflows in service sectors of India and relating the growth of the service sector FDI in creation of employment in conditions of skilled and unskilled

- **Singh J. (2010),** "Economic Reforms and Foreign Direct Investment in India: Policy, Trends and Patterns", The experiential analysis tends to suggest that the FDI inflows, in general, show an increasing trend during the post-reform period.

- **C.P.Chandrasekhar and Jayati Ghosh (2002**) have pointed out that an important objective of promoting FDI has been to promote efficiency in production and increase exports. However, any increase in the equity stake of the foreign investors in existing joint ventures or purchase of a share of equity by them in domestic firms would not automatically change the orientation of the firm. That is, "the aim of such FDI investors would be to benefit from the profit earned in the Indian market".

- **Laghane B.K (2011)** empirically examined the impact of FDI model on borrower account, bank branches, time deposits and profitability of domestic and foreign banks. In the study, he suggested that FDI must be considered in poverty reduction, unemployment reduction and primary education and priority sectors of banking. The impact of FDI on Indian banking sector is negative except profitability.

- **Kunal Badade & Medha katkar (2011)** have studied that India has sought to increase inflows of FDI with a much liberal policy since 1991 after decade cautious attitude. The 1990's have witnessed a sustained rise in annual inflows to India. They rightly pointed out that the present scenario looks more closely at the paradigm of exponential growth and laments that India's role as an engine for global growth has been limited by the still relatively closed nature of its economy.

- **Supriyachopra, Satvinder Kaur etl. (2014**) in his paper "Analysis of FDI Inflows and Out flows in India" tried to find out the Determinants of FDI Inflows, the pattern and Direction of it and factors responsible for lesser FDI Inflow in India. She focused that for achieving a higher level of economic development and technological up gradation the FDI should allowed to India. She found that Market size, cost factors, real exchange rates, rate of inflation etc. are the determinants of FDI inflows. She pointed out that there is an increasing trend of FDI in a developing country like India, where the scare resources like capital usually required for economic development.

3. Objectives

- To analyze the Foreign Direct Investment inflows in Banking Sector.

- To analyze the impact of FDI on performance of Indian public sector banking industry with respect to productivity.

4. Research Methodology:

This is a Descriptive as well as Analytical type of research in nature. This study is purely based on secondary data. The secondary data was collected from various sources such as Journals, Articles, RBI publications, Ministry of Finance publications, Department of Industrial Policy& Promotion publications, SIA newsletter, Online database of FDI and Newspapers etc. Data was analyzed by using statistical tools such as Averages, Percentages, Tables, Charts and Diagrams wherever necessary.

5. Data Analysis

- **Foreign Direct Investment inflows in Banking Sector**

Table -1: Cumulative FDI Equity Inflows received in Indian Economy

. Nos.	cial Year (April – March)	Amount of FDI Inflows		%age growth over previous year (in terms of US $)
	'INANCIAL YEARS 2000-01 TO 2017-18	In Rs Crores	In US$ Million	
1.	2000-01	10,733	2,463	-
2.	2001-02	18,654	4,065	(+) 65 %
3.	2002-03	12,871	2,705	(-) 33 %
4.	2003-04	10,064	2,188	(-) 19 %
5.	2004-05	14,653	3,219	(+) 47 %
6.	2005-06	24,584	5,540	(+) 72 %
7.	2006-07	56,390	12,492	(+)125 %
8.	2007-08	98,642	24,575	(+) 97 %
9.	2008-09	142,829	31,396	(+) 28 %
10.	2009-10	123,120	25,834	(-) 18 %
11.	2010-11	97,320	21,383	(-) 17 %
12.	2011-12 ^	165,146	35,121	(+) 64 %
13.	2012-13	121,907	22,423	(-) 36 %
14.	2013-14	147,518	24,299	(+) 8%
15.	2014-15 #	181,682	29,737	(+) 22%
16.	2015-16 #	262,322	40,001	(+) 35%
17.	2016-17#	291,696	43,478	(+) 9%
18.	2017-18#	288,889	44,857	(+) 3%

Chart-1: Cumulative FDI Equity Inflows received in Indian Economy

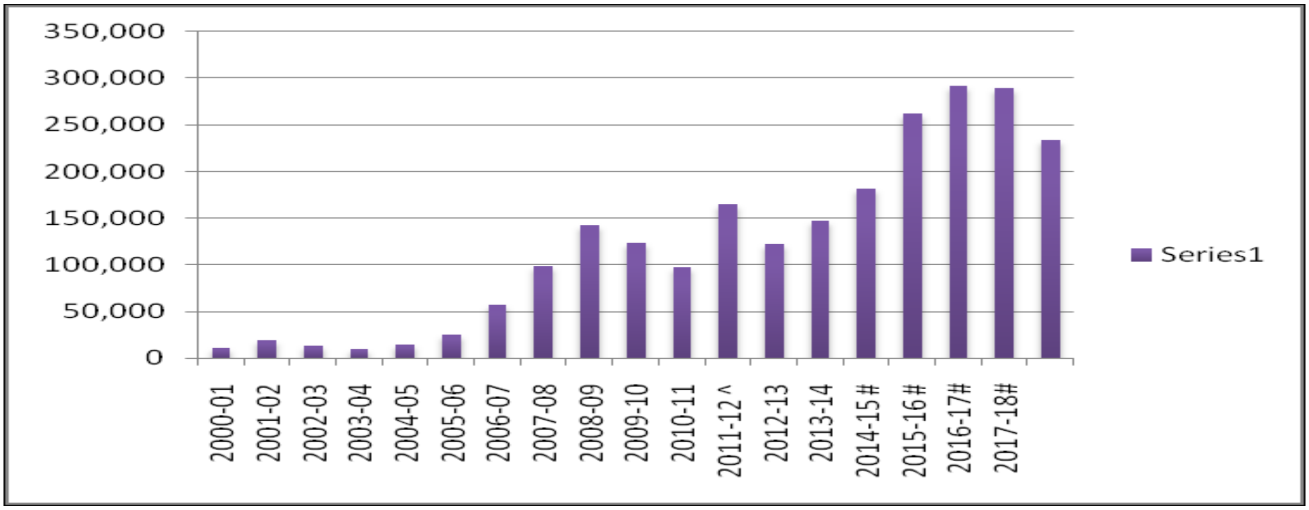


Table – 2: Cumulative FDI Inflows in Services Sector

YEARS	Financial Equity Inflows (Rs Crore)	Non – Financial Equity Inflows (Rs Crore)	Total Service Sector Equity Inflows (Rs Crore)
2000-2010	47,923.80	29,316.24	118,700.95
2010-2012	13,731.32	21,254.66	49,395.79
2012-2015	30,398.31	20,693.25	72,563.70
2015-2016	12,339.35	20,939.20	68,405.19
2016-2017	9,245.99	9,510.48	37,412.46
TOTAL	113,638.77	101,713.83	346,478.09

Chart – 2: Cumulative FDI Inflows in Services Sector

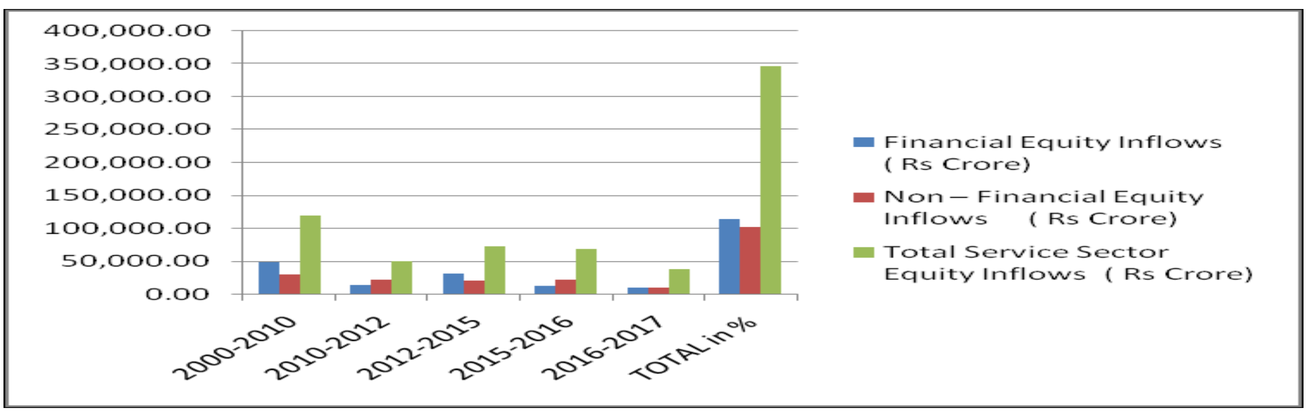
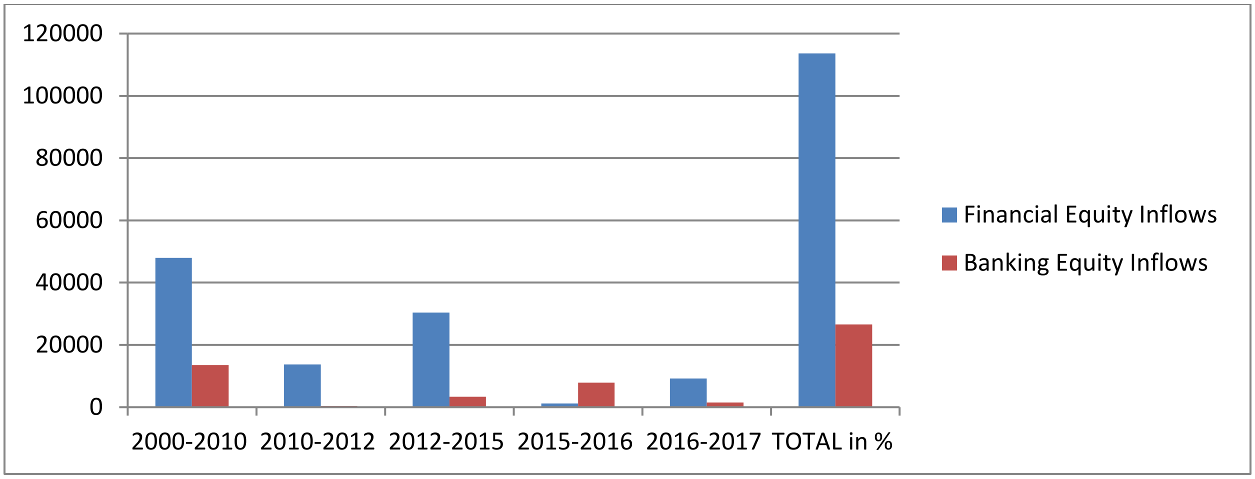


Table – 3: Cumulative FDI Inflows in Banking & Chart-3

YEARS	Financial Equity Inflows	Banking Equity Inflows
2000-2010	47923.8	13,471.60
2010-2012	13731.32	398.68
2012-2015	30398.31	3,304.68
2015-2016	1239.35	7,874.03
2016-2017	9245.99	1,476.46
TOTAL in %	113638.77	26,525.45

Chart – 3: Cumulative FDI Inflows in Banking

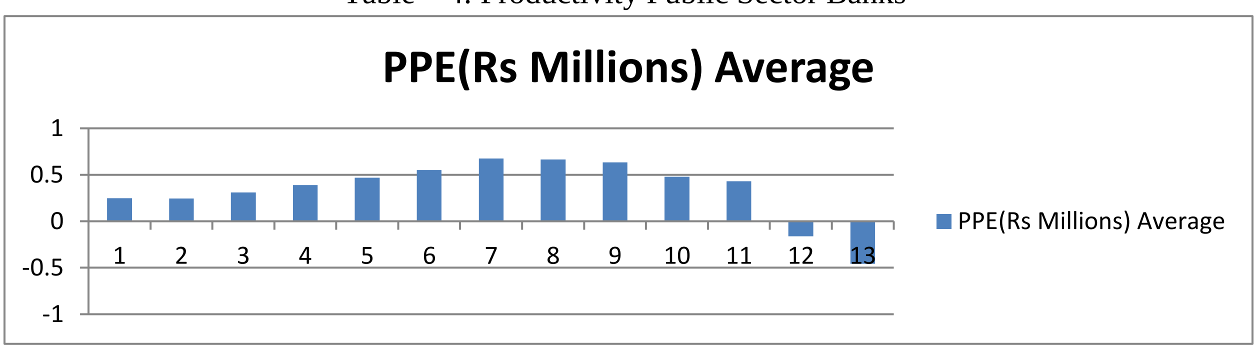


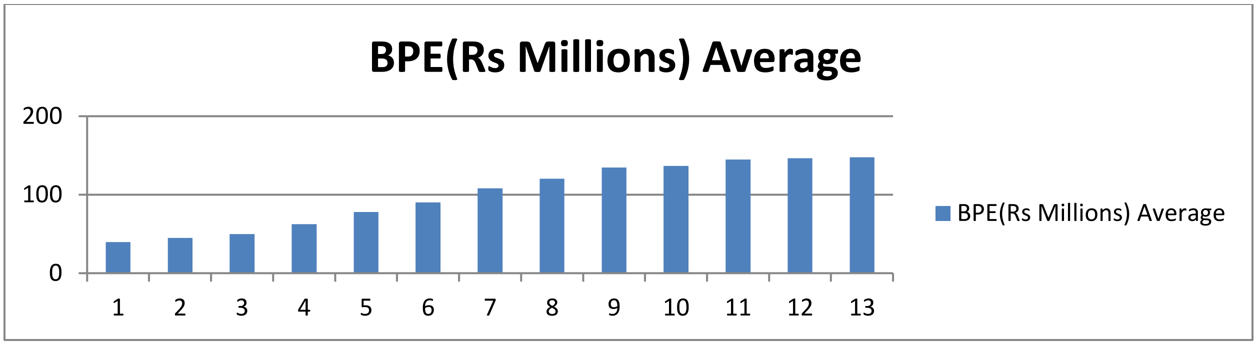
- **Impact of FDI on Productivity of Indian Public Sector Banks**

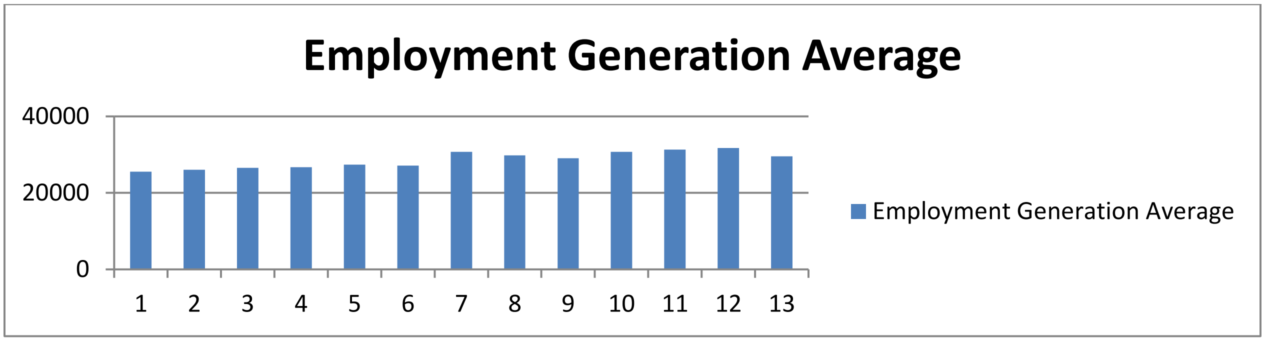
Table – 4: Productivity Public Sector Banks

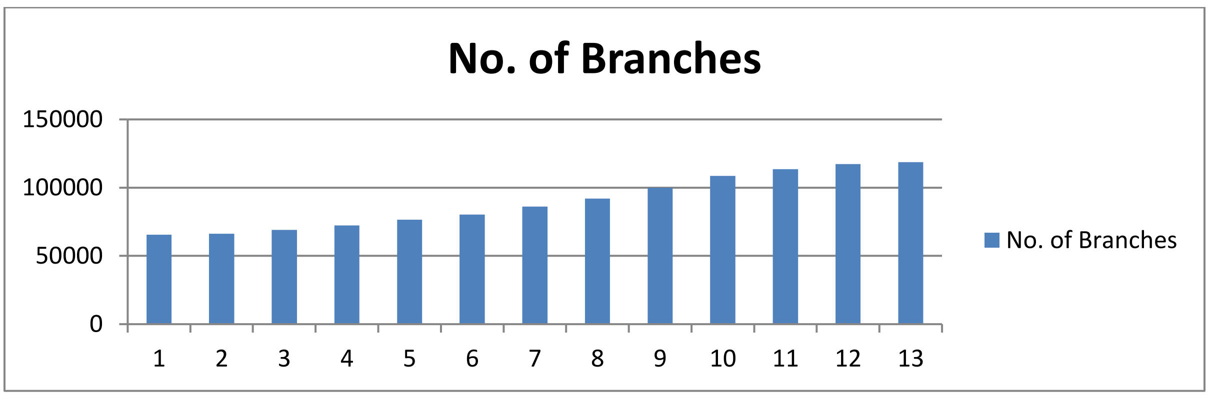
YEARS	BPE(Rs Millions) Average	PPE(Rs Millions) Average	Employment Generation Average	No. of Branches
2005	39.45160714	0.248821429	25550.28571	65585
2006	45.00689286	0.245703704	26031.35714	66198
2007	49.68235714	0.310892857	26583.32143	69062
2008	62.38685714	0.390714286	26743.03571	72358
2009	77.9687037	0.468333333	27394.2963	76588
2010	90.29911111	0.55	27093.48148	80396
2011	107.9437308	0.674346154	30712.88462	86074
2012	120.3011154	0.6645	29781.88462	92101
2013	134.4938846	0.633538462	29042.38462	99871
2014	136.7591111	0.479	30758.77778	108639
2015	144.9788148	0.431111111	31276.07407	113515
2016	146.3930741	-0.160888889	31706.33333	117354
2017	147.7818519	-0.457259259	29528.6	118781

Table – 4: Productivity Public Sector Banks









6. Findings

As per the analysis done the for time roll mentioned by the analysis done

1. FDI Equity inflows in Banking Sector have been increasing year by year in an increasing trend. But as compared to other service sectors the financial equity inflows are becoming more beneficial.
2. FDI is also sparking to make the business per employee and profit per employee higher time to time for all commercial banks of public sector. The deviation marked is very low also for the same.
3. This has put a high positive impact on the employment generations with number of branches of banks. It shows a good competitive market.

7. Conclusion

FDI liberalization period shows significant positive impact on the productivity of public sector banks through the impact on profit per employee and Business per employee which are the productivity parameters. However the same cannot be fully said about the profitability measures. Overall observation shows that productivity has gone up in the FDI liberalization period and productivity of Indian public sector banks have grown in the period in case of some important indicators/parameters, while there is no impact /negative impact in other indicators. So

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