

# Revised Data on Foreign Direct Investment

## I. Background

In the recent past, there have been discussions in various fora regarding the coverage of foreign direct investment (FDI) statistics in India, which mainly include equity capital, *vis-à-vis* the data published by some other countries which include equity capital, reinvested earnings (retained earnings of FDI companies) and other capital (inter-corporate debt transaction between related entities).

In an effort to bring the reporting system of FDI data in India into alignment with international best practices, the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India (GoI), in consultation with RBI, constituted a committee in May 2002 comprising officials from RBI and DIPP to study this issue. The Committee studied the relevant conceptual and methodological issues and identified the data gaps involved in order to make necessary recommendations for strengthening the collection, compilation and reporting of FDI data. The Committee submitted its Report in October 2002 recommending that the FDI statistics should include, besides equity capital, 'reinvested earnings' (retained earnings of FDI companies) and 'other direct capital' (inter-corporate debt transactions between related entities) in accordance with the international best practices. The Committee also recommended that the steps be taken jointly by RBI and DIPP to expand the coverage of FDI statistics in India.

As a follow-up action to the submission of FDI Compilation Report, a Technical Monitoring Group (TMG) with representatives from RBI, DIPP, Department of Economic Affairs (DEA), Department of Company Affairs (DCA) and National Informatics Centre (NIC) was constituted by DIPP in November 2002 for speedy implementation of the recommendations made by the above Committee. The main focus of the TMG was to identify various components of FDI, which are operationally feasible and capture these components in a specified institutional framework and within a specified time period. TMG submitted its first Action Taken Report on June 27, 2003.

## II. Proposed Coverage of FDI to India

After reviewing the international best practices as also some select country experiences, the TMG concluded that inclusion of the following *fourteen* items in Indian FDI data under three major heads would, by and large, comply with the reporting system in line with international best practices.

### A. *Equity Capital*

1. Equity capital of unincorporated entities;
2. Non-cash acquisition against technology transfer, plant and machinery, goodwill, business development and similar considerations;
3. Control premium;
4. Non-competition fees.

### B. *Reinvested Earnings*

5. Reinvested earnings of incorporated entities;
6. Reinvested earnings of unincorporated entities;
7. Reinvested earnings of indirectly held direct investment enterprises.

### C. *'Other capital'*

8. Short-term and long-term inter-corporate borrowings;

9. Trade credit;
10. Suppliers credit;
11. Financial leasing;
12. Financial derivatives;
13. Debt securities; and
14. Land and buildings.

Against this background, RBI and DIPP jointly decided to expand the coverage of data on FDI, both inflow and outflow for 2000-01 and 2001-02. The revised data on FDI include all items indicated under *equity capital* (except non-cash acquisitions). The equity capital of unincorporated entities (Item no. 1 above) includes the equity capital of foreign banks' branches in India. All items under the *reinvested earnings* have been included except reinvested earnings of indirectly held direct investment enterprises. Data under 'Other Capital' relate to short-term and long-term borrowing, trade credit (more than 180 days), suppliers' credit (more than 180 days), and financial leasing. Thus, in this exercise, out of fourteen items stated above, the FDI data do not include the following *six* items *viz*, (i) non-cash acquisitions, (ii) reinvested earnings of indirectly held direct investment enterprises, (iii) short-term trade credit, (iv) financial derivatives, (v) debt securities and (vi) land & buildings. The TMG is exploring the feasibility of including these items in future.

### **III. Proposed coverage of FDI by India**

Figures in respect of FDI by India (Indian investment abroad), hitherto reported in the BoP statistics, comprised mainly the equity component similar to the treatment given to FDI inflows into India. Since the data on FDI to India are being revised according to the best international practices, there was a need to compile corresponding data on Indian investment abroad. Accordingly, comparable data on Indian investment abroad that include equity capital, reinvested earnings and 'other capital' have been compiled for fiscal 2000-01 and 2001-02.

### **IV. Current Revision of Data on FDI**

In line with the explanation given above, the revised data (which are at present provisional) for 2000-01 and 2001-02 are shown in Tables 1 and 2.

**Table 1: Component-wise Revised FDI Data to India**

**(\$ US Million)**

	<b>Item/Year</b>	<b>2000-01</b>	<b>2001-02</b>
<b>I.</b>	<b>Revised FDI to India (a+b+c)</b>	<b>4029</b>	<b>6131</b>
	(a) Equity	2400	4095
	(b) Reinvested Earnings	1350	1646
	(c) 'Other Capital'	279	390
<b>II.</b>	<b>FDI Data Currently Published</b>	<b>2342</b>	<b>3905</b>
<b>III.</b>	<b>Additional Amount on Account of Revision</b>	<b>1687</b>	<b>2226</b>

**Table 2: Foreign Direct Investment Abroad (by India)**

**(US \$ Million)**

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	Item/Year	2000-01	2001-02
<b>I.</b>	<b>Revised FDI Abroad</b>	<b>757</b>	<b>1390</b>
	(a) Equity	344	570
	(b) Reinvested Earnings	339	699
	(c) 'Other Capital'	74	121
<b>II.</b>	<b>FDI Abroad data Currently Published</b>	<b>514</b>	<b>639</b>
<b>III.</b>	<b>Additional Amount on Account of Revision</b>	<b>243</b>	<b>751</b>

## V. Implications for the Balance of Payments

In terms of standard practice of BoP compilation, the above revision of FDI data would not affect India's overall BoP position for these two years. In other words, the accretion to the foreign exchange reserves would not undergo any change. However, there would be changes in the composition of BoP. These changes relate to *investment income*, *external commercial borrowings* and *errors and omissions*. In case of reinvested earnings, there would be a contra entry (debit) of equal magnitude under *investment income* in the current account. 'Other Capital' reported as part of FDI inflow has been carved out from the figure reported under *external commercial borrowings* by the same amount. 'Other Capital' by Indian companies abroad and equity capital of unincorporated entities have been adjusted against the *errors and omissions*. Following the above methodology, appropriate changes have been made in the current and capital account transactions of BoP. As a result, the current account surplus during 2001-02, which amounted to US \$ 1.4 billion, has been revised to a surplus of US \$ 0.8 billion. Furthermore, the current account deficit during 2000-01 has increased from US \$ 2.6 billion to US \$ 3.6 billion. This is mainly on account of adjustment of reinvested earnings as a contra entry in the investment income as explained above. The other major change is the

reduction in errors and omissions in both the years. In net terms, the *errors and omissions* have been revised from US \$ (-) 588 million to US \$ (-) 572 million during 2000-01 and from US \$ 860 million to US \$ 403 million during 2001-02. The detailed BoP data revised as per above have been released in a separate RBI press note on June 30, 2003.

## VI. Future Course of Action

In future, *reinvested earnings* and *equity capital of unincorporated bodies* would be included in FDI data on an annual basis, as these data are culled out from the balance sheets of the FDI companies. Every year these data would become available with a time lag of one year e.g., data for 2002-03 would be available by June 2004. Consequently, for these items, advance estimates will be incorporated in the BoP data until firm data become available with a time lag of one year.

For 2002-03, the data on reinvested earnings are estimated as the average of the previous two years of 2000-01 and 2001-02. In the future as well, there will be a regular one-year lag in the reporting of reinvested earnings. '*Other Capital*' could be captured on a quarterly basis and would be reported together with quarterly dissemination of BoP statistics. The estimates for data on FDI for 2002-03 in the line of figures indicated in Tables 1 and 2 are presented in Tables 3 and 4

**Table 3: Component-wise Revised FDI Data to India**

**(\$ US Million)**

	Item/Year	2002-03
<b>I.</b>	<b>Revised FDI to India (a+b+c)</b>	<b>4660</b>
	(a) Equity	2700

	(b) Reinvested Earnings	1498
	(c) 'Other Capital'	462
<b>II.</b>	<b>FDI Data Currently Published</b>	<b>2574</b>
<b>III.</b>	<b>Additional Amount on Account of Revision</b>	<b>2086</b>

**Table 4: Foreign Direct Investment Abroad (by India)**

**(US \$ Million)**

	<b>Item/Year</b>	<b>2002-03</b>
<b>I.</b>	<b>Revised FDI Abroad</b>	<b>1049</b>
	(a) Equity	424
	(b) Reinvested Earnings	519
	(c) 'Other Capital'	106
<b>II.</b>	<b>FDI Abroad data Currently Published</b>	<b>459</b>

RBI and DIPP would jointly continue to monitor the compilation of FDI statistics through TMG until the reporting system relating to remaining items of FDI is stabilized.

**Note:** The FDI Compilation Report and the first Action Taken Report of the TMG are available in RBI and DIPP websites (<http://www.rbi.org.in/> and <http://www.dipp.nic.in/>). This press release has also been released jointly by the RBI and the DIPP.