Foreign capital inflows projected to be sluggish

- Almost 47% of foreign capital inflow would come from ECBs
- Corporates expected to raise $25 bn in 2007-08, compared with $21.1 bn last year
- FDI outflows has gone up by 275% to $11 billion in 2006-07, from the previous year's $2.9 billion

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The growth in foreign capital inflows to India is expected to slow down to 29% in 2007-08 to $58 billion, much lower than last year's growth of 92%, according to the Economic Outlook for 2007-08 report released by the Prime Minister's Economic Advisory Council on Monday.

Almost half of it or 47 % would come from external commercial borrowing (ECBs) by Indian companies, despite restrictions imposed by the government, particularly in the real estate sector. According to the EAC report, Indian corporates are expected to raise $25 billion in 2007-08, compared with $21.1 billion last year. The growth of ECBs, however, would slow down considerably; compared with 246% growth it saw in 2006-07 over 2005-06. Net FDI inflow would grow by over 78% to $15 billion in 2007-08, aided by the increased interest in India. The net FDI inflow was $8.4 billion in 2006-07.

This comes on the backdrop of the government easing the norms in several sectors for foreign investments. In addition, there are also plans to open up a large number of areas, with a potential to attract huge investments soon. The government is also undertaking a review of its FDI policy.

Net portfolio investments, however, has slowed down to $7.1 billion in 2006-07 from $12.5 billion in 2005-06. The FDI outflows, has gone up by 275% to $11 billion in 2006-07, from the previous year's $2.9 billion. A large number of Indian companies have either acquired companies overseas or are looking at global buyouts.

Banking capital inflows, driven by NRI deposits, has grown by $3.9 billion in 2006-07. The EAC, however, predicts a possible slowdown in deposits. "There have been steps taken to reduce the interest being offered on such deposits and some slowdown in fresh deposits is likely. However, considering that interest will continue to accumulate on existing deposits and some incremental deposits are likely to continue accruing, a lower level of $2.5 billion incremental inflow is expected on banking capital," says the council's report.