INSIGHTS

India a good bet for Singapore and Asean investors

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India's economy continues to grow and its recent efforts at attracting foreign investment could be the catalyst for an inflow of South-east Asian investors looking for strong returns and portfolio diversification.

All eyes have been on India as it announced its latest Budget in February, particularly foreign investors, given its rising status as an investment magnet.

Many have been buoyed by the Indian government's fiscal discipline which is expected to have far-reaching effects for macro-economic stability and their roll-out of comprehensive measures to support sustainable economic growth in India.

This bodes well for foreign investors. According to the Reserve Bank of India, India received some US$33 billion in foreign direct investments (FDI) in 2014. FDI inflow into India amounted to about US$30 billion as of September 2015 and can be estimated to reach US$40 billion for the full year, which will be an approximate 23 per cent jump from 2014.

Singapore has been a leader in increasing its direct investments into India every year, up from S$10.63 billion in 2010 to S$18.41 billion in 2014, according to Singstat.

India certainly has many things going for it, not least being an economy whose pace of expansion - forecast by HSBC as a 7.2 per cent GDP growth in 2015 and 7.4 per cent in 2016 and 2017 - is expected to outstrip China's.

With that scorecard, India is showing itself to be a choice investment alternative, particularly for institutional investors in Singapore and ASEAN who are eyeing overseas market for yield and diversification.

Aggressive initiatives to boost corporate confidence

In the past few years, the Indian government has signalled its desire for inbound foreign capital and has made concerted efforts to reduce red tape to bolster investor confidence.

Amongst its policy kit bag has been the government's sweeping liberalisation of FDI including raising investment limits, decreasing government approvals, simplifying investment conditions and opening up new sectors to FDI.

Moreover, Prime Minister Narendra Modi's "Make in India" campaign, aimed at attracting companies to use India as a global design and manufacturing hub, is helping to drum up investment commitments. Launched in September 2014, the campaign reflected a clear shift in the government's mind-set away from being an issuing authority to business partner, and is a strong signal for foreign businesses.

To better support these broader initiatives, the Indian government has also committed to increasing infrastructure investment, including spending on roads, bridges, railways and even ports.

Removing barriers for overseas investors with a portfolio of investment

While the foreign investment emphasis has been mainly targeted at corporates, the Indian government has not neglected overseas portfolio investors.

The new Foreign Portfolio Investor (FPI) regulations, introduced in June 2014, simplify inbound investment into India's securities markets, resulting in streamlined investment routes, speedier registration and a quicker time to market, ultimately attracting a broader pool of foreign investors. By allowing a wider investor base access to India, the scheme also has the effect of enhancing liquidity in the broader market.

And the proof is in the pudding.

Reflecting a clear boost in investor sentiment, there has been a significant increase in new account openings and FPI assets from many countries, including Singapore, held onshore in India. Singapore is a top three jurisdiction in terms of FPI assets into India, which totalled some US$40 billion as of December 2015, and also accounts for about six per cent of the new FPI registrations since the regime went live in December 2014.

Singapore entities have again been early adopters of this development with FPI assets from Singapore into India growing by over 70 per cent just in the period between January 2014 and December 2015.

Market authorities are also working on a number of initiatives to reform India's debt capital market, again with a view to influence investments into Indian fixed income.

As a significant step forward, the Reserve Bank of India in its September monetary policy meeting announced an increase in the debt limits, allowing FPIs to progressively hold up to 5 per cent of total government debt through a phased auction process by 2018.

The enhanced limits have since further fuelled interest from foreign investors who have taken up the full value of general government security limits offered to foreign investors during auctions.

A potential boon to investors as a whole

Like many of its global peers, the Indian government will still be walking the fiscal tightrope in balancing investment and debt management over the next couple of years. But what is clear from its latest Budget is that India is determined to continue its upward growth trajectory.

The new FPI regime will continue to encourage foreign portfolio investments into India and, coupled with India's strong economic growth outlook in a globally challenging environment, should ensure that India remains a preferred investment destination for investors from Singapore and the Asean region.

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