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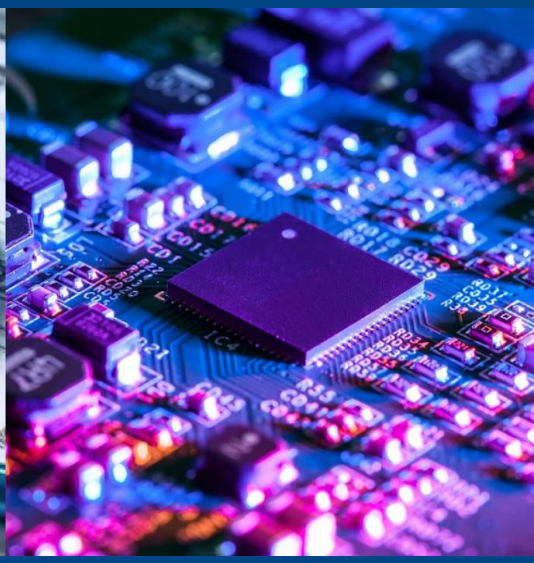

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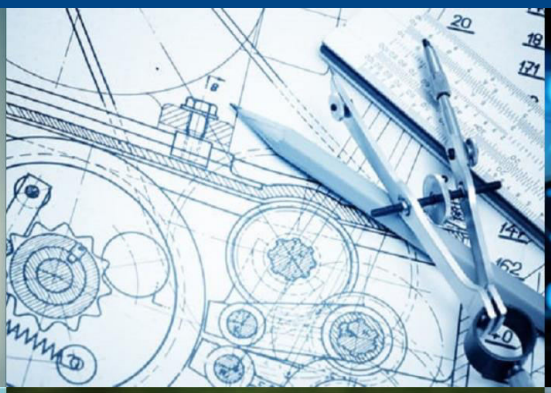

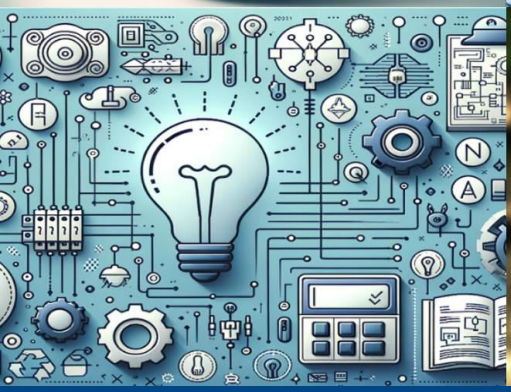

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A Study on the Impact of Foreign Direct Investment (FDI) on Call Money Rate in the Indian Market

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ABSTRACT: Foreign Direct Investment (FDI) has become an important source of capital inflow for developing economies like India. It contributes to economic growth, technological development, and employment generation. At the same time, the stability of financial markets is influenced by liquidity conditions in the banking system, which are often reflected in short-term interest rates such as the call money rate. The call money market is a key segment of the Indian money market where banks borrow and lend funds for very short durations to maintain liquidity.

This study examines the relationship between Foreign Direct Investment inflows and the call money rate in India during the period 2010–2024. Secondary data collected from official financial databases is used for the analysis. Statistical techniques such as correlation analysis and regression analysis are applied to determine the relationship between the variables.

The results of the study are expected to provide insights into the interaction between foreign capital inflows and short-term liquidity conditions in the financial system. The findings may help policymakers, researchers, and financial institutions understand how international capital flows influence money market interest rates in emerging economies.

I. INTRODUCTION AND BACKGROUND

Foreign Direct Investment plays a crucial role in the development of emerging economies by providing long-term capital, advanced technology, and managerial expertise. Many developing countries have implemented liberal economic policies to attract foreign investors. India, in particular, has experienced significant growth in FDI inflows after the economic reforms of 1991.

FDI contributes to economic development by increasing investment in infrastructure, manufacturing, and services. However, large capital inflows can also influence domestic financial markets. Increased capital inflows may improve liquidity conditions in the banking sector and influence short-term interest rates.

The call money market is an important segment of the Indian money market where banks and financial institutions lend and borrow funds for short periods, usually overnight. The interest rate applicable to these transactions is known as the call money rate. It reflects the liquidity conditions in the banking system.

When liquidity is scarce, the call money rate rises because banks compete for funds. When liquidity is abundant, the rate tends to decline. Since capital inflows can influence liquidity conditions, it is important to analyse whether FDI inflows affect the call money rate.

This study, therefore, attempts to examine the relationship between FDI inflows and the call money rate in India during the period 2010–2024.

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II. RESEARCH PROBLEM

Foreign capital inflows play an important role in the economic development of emerging economies. However, large inflows of foreign capital may also influence domestic financial markets and liquidity conditions. While several studies have analysed the relationship between FDI and economic growth, limited research has focused on the relationship between FDI inflows and short-term interest rates in the money market. Therefore, this study attempts to analyse whether FDI inflows influence the call money rate in India.

III. OBJECTIVES OF THE STUDY

Main Objective

- To analyse the relationship between Foreign Direct Investment inflows and the call money rate in India.
- Specific Objectives
- To study the trend of FDI inflows in India from 2010 to 2024
- To examine the trend of call money rates in India during the same period
- To analyse the statistical relationship between FDI inflows and call money rate

IV. HYPOTHESIS

H0: There is no significant relationship between FDI inflows and the call money rate in India.
H1: There is a significant relationship between FDI inflows and the call money rate in India.

V. REVIEW OF LITERATURE

Chen and Zulkifli (2024) examined the relationship between foreign capital inflows and financial market stability in emerging economies. Their findings indicated that higher levels of foreign investment improve liquidity conditions in domestic financial markets and influence short-term interest rates.

Kumar and Sharma (2023) analysed the determinants of FDI inflows in developing economies and found that macroeconomic stability and financial market development significantly influence foreign investment decisions. The study also suggested that increased capital inflows can affect domestic financial market liquidity.

Dua (2020) investigated the role of foreign direct investment in economic growth and financial market development. The study concluded that FDI inflows contribute to economic expansion by increasing capital availability and strengthening financial systems.

Arimurti and Morley (2020) studied the influence of capital flows on monetary policy in emerging markets. Their research revealed that large capital inflows can affect domestic interest rate movements and monetary policy decisions.
Hungund and Rastogi (2019) analysed the relationship between money market instruments and capital market indicators using time-series analysis. The study found that money market variables such as commercial papers and bank rates are closely linked with capital market activities.

Prasanna (2017) examined the impact of foreign institutional investment and FDI on financial market performance in India. The study observed that foreign capital inflows contribute to financial market development and liquidity.

Alfaro et al. (2014) analysed the relationship between foreign direct investment and financial market development across countries. Their findings showed that strong financial markets help economies benefit more from FDI inflows.

Nath and Aparna (2012) examined the determinants of short-term interest rates in the Indian money market. The study concluded that liquidity conditions and capital flows play an important role in influencing short-term interest rates.

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VI. METHODOLOGY

Research Design

The study follows a **quantitative research approach** based on secondary data analysis.

Data Sources

The data used in the study were collected from reliable secondary sources, including:

- Reserve Bank of India (RBI)
- Department for Promotion of Industry and Internal Trade (DPIIT)
- World Bank database
- Government financial statistics reports

Study Period

2010–2024

Variables Used

Variable	Description
FDI Inflows	Total foreign direct investment inflows into India
Call Money Rate	Short-term interest rate in the Indian money market

Statistical Tools

- Descriptive statistics
- Trend analysis
- Correlation analysis
- Regression analysis

VII. DATA ANALYSIS

Descriptive Statistics

The descriptive statistics indicate that Net FDI inflows in India during the study period had an average value of approximately 28,775, with a minimum of 10,887 and a maximum of 43,955. These figures demonstrate significant variation in foreign investment inflows across different years.

The call money rate recorded an average value of 6.27 per cent, with a minimum of 3.25 per cent and a maximum of 8.34 per cent, indicating moderate fluctuations in short-term interest rates during the study period.

Table 1: Descriptive Statistics

Variable	Minimum	Maximum	Mean	Standard Deviation
Net FDI Inflows	10,887	43,955	28,775.64	10,549.07
Call Money Rate (%)	3.25	8.34	6.27	1.61

Correlation Analysis

The Pearson correlation coefficient between Net FDI inflows and the call money rate was found to be −0.5377. This indicates a moderate negative relationship between the two variables.

The p-value of 0.0473 is lower than the significance level of 0.05, indicating that the relationship between FDI inflows and the call money rate is statistically significant.

The negative relationship suggests that higher foreign investment inflows may increase liquidity in the financial system, thereby reducing short-term borrowing costs in the interbank market.

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Table 2 Correlation Results

Variables	Correlation Coefficient (r)	p-value
Net FDI Inflows and Call Money Rate	-0.5377	0.0473

Regression Analysis

A simple linear regression model was used to examine the impact of Net FDI inflows on the call money rate.
The regression results indicate that the coefficient of Net FDI inflows is −0.000082, suggesting that increases in FDI inflows are associated with a decline in the call money rate.

The p-value of 0.0473 confirms that the relationship is statistically significant. The model produced an R-squared value of 0.2892, indicating that approximately 28.92 per cent of the variation in the call money rate can be explained by changes in FDI inflows.

Based on the regression results, the null hypothesis is rejected, and the alternative hypothesis is accepted. This indicates that Net FDI inflows have a statistically significant impact on the call money rate in India.

Table 3 Regression Results

Variable	Coefficient	Standard Error	t-value	p-value
Intercept	8.633	1.134	7.614	0.000006
Net FDI Inflows	-0.000082	0.000037	-2.209	0.0473

Model Summary

Statistic	Value
R-squared	0.2892
Adjusted R-squared	0.2299
F-statistic	4.881
p-value	0.04734

Regression Equation

The estimated regression equation derived from the model is:
Call Money Rate = 8.633 − 0.000082(FDI)
Chart 1: Relationship between FDI Inflow and Call Money Rate

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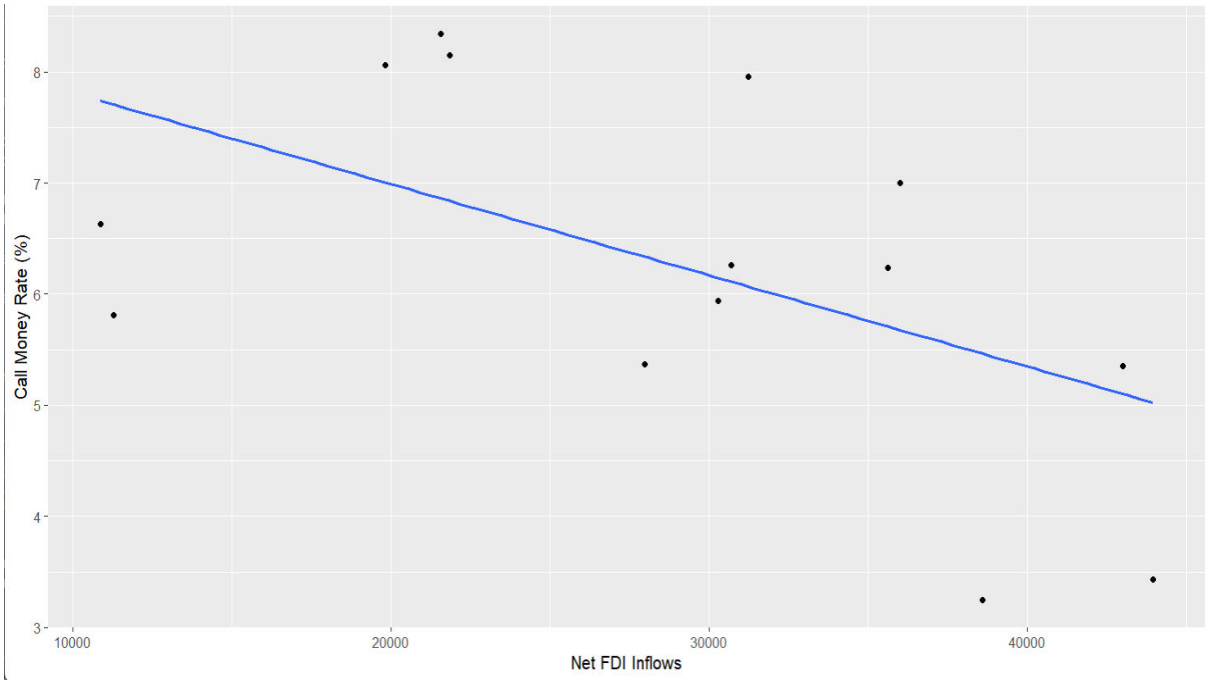

VIII. EXPECTED CONTRIBUTION / SIGNIFICANCE

This study contributes to the understanding of how foreign capital inflows influence financial market conditions in emerging economies such as India.

From a theoretical perspective, the research expands existing literature by examining the relationship between Foreign Direct Investment and short-term interest rates in the money market. It provides insights into how capital inflows affect liquidity and interest rate dynamics in the financial system.

From a practical perspective, the findings of this study may help policymakers and financial regulators better understand the effects of foreign investment on the money market. This knowledge can assist in designing effective monetary policies and regulatory frameworks to maintain financial stability.

Investors and financial institutions can also benefit from understanding how international capital flows influence short-term interest rates and liquidity conditions.

Overall, the study highlights the importance of managing foreign capital inflows effectively to ensure stability in the financial system and support sustainable economic growth.

IX. CONCLUSION

This study examined the relationship between Foreign Direct Investment (FDI) inflows and the call money rate in the Indian financial market, focusing on how international capital movements influence liquidity and short-term interest rate dynamics. The findings indicate that FDI inflows play an important role in strengthening financial market conditions by increasing the availability of capital and improving liquidity in the banking system. As foreign investments enter the economy, they contribute to greater financial stability and help support the smoother functioning of the money market. This highlights the growing importance of global capital flows in shaping domestic financial market performance in emerging economies like India.

Furthermore, the study emphasises the relevance of effective policy and regulatory mechanisms to manage foreign capital inflows efficiently. Proper monitoring and financial policies are necessary to ensure that the benefits of FDI are fully utilised while minimising potential volatility in interest rates and market liquidity. Overall, the research suggests

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that FDI contributes not only to economic growth but also to the development and stability of financial markets. Future studies may further explore the long-term impact of foreign investment on monetary policy transmission and broader financial market dynamics in emerging economies.

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