

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:2628  
ANSWERED ON:11.03.2011  
IMPACT OF INFLATION ON ECONOMIC GROWTH AND FDI  
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**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Government has studied the impact of high inflation on economic growth and Foreign Direct Investment (FDI);
- (b) if so, the details thereof; and
- (c) the steps being taken to bring stability in economic growth of the country and FDI in infrastructure sector?

**Answer**

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (c): Review and analysis of macroeconomic and structural policies is a continuous and ongoing process in the government. High levels inflation for a considerable period could dampen overall growth prospects of the economy. The adverse impact on growth could potentially result from inflation induced distortions in resource allocation and possible decline in domestic savings. The capital inflows, including foreign direct investment (FDI), to emerging markets in general are driven by both push and pull factors. The pull factors include strong growth, overall macroeconomic stability and levels of openness to capital inflows. The Government has been pursuing counter-cyclical policies to obviate the impact of the global economic downturn. FDI in many of the infrastructure sectors has been placed under the automatic route. All prior regulations and guidelines on FDI have been consolidated into one comprehensive document, which is reviewed every six months. This was done with the specific intent of enhancing clarity and predictability of our FDI policy to foreign investors. The last review was released in September 2010.