

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:223
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ECONOMIC POLICY
Joshi Dr. Murli Manohar;Roy Shri Arjun

Will the Minister of FINANCE be pleased to state:

- (a) whether the economic policy of India remains vulnerable to the changes in economies of other countries;
- (b) if so, the reaction of the Government in this regard;
- (c) whether there is a need to review the present economic policy with a view to insulating it from the effects of foreign economies;
- (d) if so, the reaction of the Government in this regard; and
- (e) the quantum of economic loss likely to be incurred by India as result of present European economic recession?

Answer

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

(a) & (b) In an increasingly integrated global economy, economic outcome in advanced economies do have an impact on emerging market economies through trade and financial channels. As such India is impacted by economic turmoil in advanced economies to some extent. However the strength and resilience of the Indian economy relative to some other economies owe to large domestic demand and a robust financial system that has low exposure to the stressed assets of the global financial markets. Besides, Government and Reserve Bank of India have calibrated the fiscal and monetary policies to mitigate the adverse impact.

(c) & (d) The uncertainty in global financial markets due to recent developments in the eurozone had some impact on India. Government has been calibrating economic policies to mitigate the impact. A number of steps have been taken to augment the supply of foreign exchange to stem the rupee decline and attract foreign investment for infrastructural development. These include liberalization of External Commercial Borrowings (ECB) policy and portfolio investment norms; steps to improve access to corporate bond market through Infrastructure Debt Funds. In addition, the Reserve Bank of India has taken initiatives to curb speculation in the foreign exchange market that inter-alia include raising of NRI deposit interest rates; easing availability of export credit and stipulating that 50 per cent of balances in the Exchange Earner's Foreign Currency (EEFC) Account be converted into rupee balances.

(e) No precise estimate of the impact of the European economic recession on Indian economy can be made in view of the dynamic and complex nature of the channels of transmission.