

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:107

ANSWERED ON:08.08.2012

HURDLES IN IMPLEMENTATION OF GOVERNMENT POLICIES

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Will the Minister of FINANCE be pleased to state:

(a) Whether the Reserve Bank of India (RBI) has observed that uncertainty and hurdles in the implementation of Government policies is hampering in inflow of foreign capital into the country; and

(b) If so, the reaction of the Government thereto?

Answer

Minister of State in the Ministry of Finance (SHRI NAMO NARAIN MEENA)

(a) & (b): Reserve Bank of India (RBI) has informed that a research study was undertaken by them to examine as to why the Foreign Direct Investment (FDI) flows to India remained sluggish in 2010-11 despite relatively better domestic economic performance ahead of global recovery. During this period, global FDI flows to other major EMEs, however, had witnessed recovery. Based on an empirical exercise to analyse the factors behind such moderation in FDI inflows to India, the study suggested that institutional factors, such as, policy uncertainty, caused the slowdown in FDI inflows to India despite robustness of macroeconomic variables. Study highlighted that other factors which significantly affect FDI flows to EMEs are openness, growth prospects, macroeconomic sustainability and labour cost. Furthermore, in its Macroeconomic and Monetary Developments in 2011-12 (April 2012 and July 2012), the Reserve Bank emphasized that trends in capital flows would largely depend on global and domestic economic and financial conditions, including the pace of domestic policy reforms.

The Government is committed to continue with the efforts to provide an investor friendly regime and facilitate foreign capital inflows.