GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:432
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FOREIGN EXCHANGE RESERVES
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Will the Minister of FINANCE be pleased to state:

(a) the reasons for weak rupee and depleting foreign exchange reserves position;

(b) whether the Central Government is looking to ease FII cap in bonds;

(c) if so, the details thereof and the details of the other measures being taken by the Government to bolster the foreign exchange reserves; and

(d) the fresh steps taken to promote/encourage foreign investment in the country?

Answer

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

(a)During the recent period, rupee has depreciated on account of both global and domestic factors. In the first quarter of 2013-14, concerns relating to the high current account deficit (CAD) and heavy dollar demand from oil importers had kept the rupee under pressure. Since late May 2013, large outflows under the Foreign Institutional Investor investment in debt instruments due to apprehensions of a tapering of the asset purchase by the US Federal Reserve. During the current year so far (April-September 2013), India's foreign exchange reserves declined by US$ 14.8 billion mainly due to moderation in capital flows and valuation loss arising on account of cross currency movement of US dollar against other international currencies.

(b)With effect from June 12, 2013, FII investment limit has been increased by US$ 5 billion to US$ 30 billion in the government dated securities. The enhanced limit of US$ 5 billion was to be available only for investments in Government dated securities by long term investors registered with SEBI − Sovereign Wealth Funds (SWFs), multilateral agencies, pension/ insurance/ endowment funds, foreign central banks. With this, the present limit for investments by FIIs, Qualified Foreign Investors (QFIs) and long term investors in government securities and for corporate debt stood at US$ 30 billion and US$ 51 billion, respectively.

(c)Accretion to foreign exchange reserves is outcome of excess of capital account balance over the current account balance besides valuation gains on foreign exchange reserves. A number of measures have been taken by the Government to contain the current account deficit (CAD), boost capital flows in order to reduce volatility in the currency market and stabilize the rupee. These, inter alia, include compression in import of gold and silver and non essential items including hike in custom tariffs and administrative measures, widening of export promotion schemes/incentives, public sector financial institutions to raise quasi-sovereign bonds to finance long term infrastructure, liberalizing ECB guidelines, PSU oil companies to raise additional funds through ECBs and trade finance, and liberalizing NRE/FCNR deposit schemes, RBI's intervention in the foreign exchange market, and liberalizing FDI.

(d)Government in consultation with RBI has taken initiatives for enhancing foreign investment in country like; (i) new class of investors namely QFIs have been made eligible to invest, (ii) to facilitate hassle free transfer of shares of the Indian companies where Foreign Investment Promotion Board (FIPB) approval has been obtained, RBI approval has been dispensed with, (iii) removal of restriction on step down subsidiaries, (iv) a non-resident including a non-resident Indian may acquire shares of a listed Indian company on the stock exchange through a registered broker under FDI scheme subject to certain provisions, (v) unlisted companies incorporated in India allowed to raise capital abroad, without the requirement of prior or subsequent listing in India, initially for a period of two years, subject to certain conditions (vi) SEBI registered FIIs, QFIs and long term investors can invest up to a limit of USD 30 billion in Government Securities and up to a limit of USD 51 billion in corporate debt.