GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1479
ANSWERED ON:13.12.2013
FOREIGN CAPITAL
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has drawn any action plan to address the fallout of the eventual tapering off of the quantitative easing programme in the United States;

(b) if so, the details thereof;

(c) the steps taken by the Reserve Bank of India and the Government to increase the flow of foreign capital into India; and

(d) the success achieved so far in this regard?

Answer

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

(a) & (b): The US Fed indications in late May 2013 about the possible tapering of quantitative easing programme led to substantial outflow of FIIs from Emerging Market Economies (EMEs) including India. Further, EMEs currencies, particularly those with high CAD, also witnessed sharp exchange rate depreciation.

Recognizing the risks to capital flows emanating from global financial conditions, Government in consultation with RBI & SEBI undertook various measures to facilitate capital inflows and stabilize foreign exchange market.

(c): In order to augment capital inflows, various measures have been taken in the recent period, including (i) liberalized FDI norms through review of limits and (or) routes for select sectors viz., telecom, asset reconstruction companies, credit information companies, petroleum and natural gas, courier services, commodity exchanges, infrastructure companies in the securities market and power exchanges, (ii) offering a window for the banks to swap the fresh FCNR(B) dollar funds with the Reserve Bank, (iii) increase in the overseas borrowing limit from 50 to 100 per cent of the unimpaired Tier I capital of banks (with the option of swap with the Reserve Bank, and (iv) permission to avail of ECB under the approval route from their foreign equity holder company for general corporate purposes.

(d): The recent steps have had distinct positive impact and favorable sentiment is on rise. Rupee has seen a steady recovery and shown an appreciation of 8.8 per cent as on December 9, 2013 over end-August 2013. India's foreign exchange reserves which had fallen to US$ 275.5 billion at end-August 2013 have started re-building and increased to US$ 295.7 billion as on December 6, 2013. Going forward, since India's Current Account Deficit (CAD) is projected to be around USD 56 bn in the current fiscal year which will be lower by almost US$32 billion in comparison with the last year, the impact of actual tapering is expected to be much lower than that occurred during post-May 2013 period.