

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4459
ANSWERED ON:19.12.2014
LOSS TO GLOBAL INVESTOR
Reddy Shri Ponguleti Srinivasa

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has taken note of International Monetary Fund (IMF) warning regarding loss to global investors arising out of factors such as sudden departure from the low interest regime by the US Federal Reserve;

(b) if so, the details thereof; and

(c) the measures taken by the Government in this regard.

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JAYANT SINHA)

(a) & (b): The 'Global Financial Stability Report' of the International Monetary Fund (IMF), released in October 2014, inter alia, states that emerging markets are more vulnerable to shocks from advanced economies, as they now absorb a much larger share of the outward portfolio investment from advanced economies. A consequence of these stronger links is the increased synchronization of asset price movements and volatilities.

These structural changes in credit markets, together with the expected normalization of monetary policy in the United States, have raised market and liquidity risks.

(c): The Government and Reserve Bank of India have taken several measures to restore stability to the financial markets during the period which include: (i) the Government increased customs duty on import of gold to 8 per cent in June 2013 and further to 10 per cent in August 2013; (ii) liquidity tightening measures to stabilise currency market; (iii) Government eased and modified norms for FDI in select sectors; (iv) the Reserve Bank of India opened a forex swap window to meet the entire daily dollar requirements of three public sector oil marketing companies; (v) In September 2013, banks were incentivized to mobilize fresh FCNR(B) deposits from non-residents and swap directly with the Reserve Bank of India. The Reserve Bank of India also increased 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 of India.

These measures helped in containing India's current account deficit and build-up of foreign exchange reserves which reduced external sector vulnerabilities and boosted confidence of foreign investors.