

# Set FDI cap at 49% for all sectors, says PM's panel

Monetary policy tightening, slowing of investment may lower industrial growth

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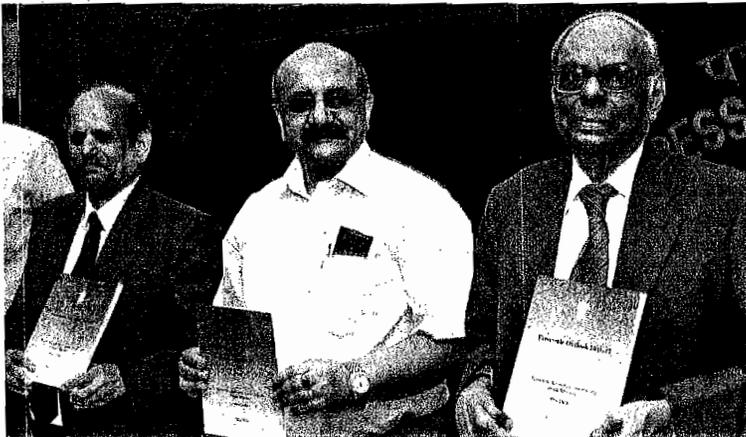
New Delhi, Aug. 1

Charting the boldest reform ever, the Economic Advisory Council to the Prime Minister (PMEAC) has suggested uniform 49 per cent direct foreign direct investment in all sectors, except the negative ones (defence, nuclear energy, etc).

The Council released its Economic Outlook for the financial year 2011-12 on Monday.

"There are apparent signs of slowing down of foreign investment flow, we need to be proactive in promoting the flow of such investment," the Council said. It noted that inbound FDI declined from \$33.1 billion in 2009-10 to \$23.4 billion in 2011-12. Inbound FDI for the current year is estimated at \$35 billion.

At present, key financial sectors, such as banking, have a 33 per cent cap on FDI while for insurance, the ceiling is 26 per cent. Nothing has been decided about the pension sector but it is believed that the FDI cap will be on the same lines as insurance. Favouring a more conducive environment for portfolio foreign investment, the Council wants the Govern-



**Dr C. Rangarajan**, Chairman, PM's Economic Advisory Council, Mr Saumitra Chaudhuri and Mr M. Govinda Rao (left), members of the council, releasing the Economic Outlook 2011-12 in the Capital on Monday. — Kamal Narang

ment to move on the recommendations of the U.K. Sinha Committee on financial flows.

In 2010, the Committee recommended single-window for the registration of Qualified Foreign Investors, doing away with the distinction between FIIs, foreign venture capitalists and NRIs.

The Council, however, ex-

pects much lower FII investment during 2011-12, less than half of what the country received during the last fiscal. The reason could be adverse economic developments in the US and Euro Zone.

Dr C. Rangarajan, Chairman, PMEAC, said, "World economic situation is not good. Many developed countries

have revised their GDP. It will have an impact on us in two ways. First, export growth may come down and second, international commodity prices could face a dampening effect."

Estimating growth lower than what it projected in February, the Council feels that tightening of the monetary

## HOW PMEAC SEES THE ECONOMY IN 2011-12

	(in %)	
	2010-11	2011-12
GDP	8.5	8.2
Industry	7.9	7.1
Agriculture	6.6	3.0
Inbound FDI (\$ billion)	23.4	35
FII (\$ billion)	30.3	14
Inflation	--	6.5

policy and slowing of investment in the private sector will bring down industrial growth. Growth in agriculture will come from allied sectors such as horticulture and not food-grain production.

The Council said tight monetary policy will continue till inflation moderates.

Saying that high inflation will continue for some more time, Dr Rangarajan advocated revision of petro product prices in line with international crude prices. Such a move will help the Government to check subsidy as well as to keep fiscal deficit within the target.

Shishir.s@thehindu.co.in