

**PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA**

**NO CAUSE FOR PANIC DUE TO CURRENCY MARKET VOLATILITY;
GOVERNMENT HAS NO INTENTION TO INTRODUCE ANY CAPITAL CONTROLS: FM**

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The Union Finance Minister Shri P. Chidambaram said that revival and encouragement of growth will continue to be the focus of the Government. Shri Chidambaram said that stronger growth will, in course of time, alleviate many of the challenges that we face. He said that there is no cause for the panic that seems to have gripped the currency markets and that is feeding into other markets. The Finance Minister expressed confidence that stability will return to these markets and we can get on with the task of promoting investment and growth.

Following is the text of the Finance Minister Shri P.Chidambaram's Statement made by him during a Press Conference here today:

“There is widespread concern about the volatility in the currency markets. I may point out that all emerging market economies appear to be affected by such volatility.

Thanks to the global slowdown as well as some domestic factors, the Indian economy is challenged. In the last twelve months, the Government has taken a number of measures to contain inflation and to revive investment and growth. Some results are visible, yet there are many challenges that have to be overcome. Growth slowed down to 5 percent in 2012-13 and we expect that the growth trend will remain flattish in the first quarter, but even so we are in better health than many other countries of the world. Therefore, there is no reason for excessive or unwarranted pessimism.

We expect that growth will pick up in Q2 to Q4. Supporting this are (i) increase in sown area by about 9.1 percent; (ii) acceleration in the pace of Plan expenditure; and (iii) impact of the projects cleared by the CCI in the last few months.

For 2012-13, Government made a promise on containing the fiscal deficit. Government has redeemed that promise and the fiscal deficit was reduced to 4.9 percent. Besides, the Current Account Deficit (CAD) which was USD 88.2 billion was fully financed and there was also an accretion of USD 3.8 billion to the reserves. For 2013-14 too, Government has made two commitments:

One, that the fiscal deficit will be contained at 4.8 percent; and

Two, that the CAD will be contained at USD 70 billion and will be fully and safely financed.

I reaffirm the two commitments, and shall continue to make every effort to communicate these two commitments to the markets and the stakeholders.

Some measures taken recently by the RBI have been the subject matter of different interpretations. We wish to make it clear that these measures were taken to reduce volatility in the markets and to quell speculation on the Indian rupee. There was – and is – no intention to introduce any type of capital control, including controls on repatriation. It is not the policy of the Government or the RBI to resort to capital controls or reverse the direction of capital account liberalisation. The measures that were taken last week will be revisited as stability returns.

We believe that the rupee is undervalued and has overshot what is generally believed to be a reasonable and appropriate level. Capital inflows will, in due course, correct the position. On August 12, 2013, I had listed a number of measures that we will take to enhance the capital inflows by about USD 11 billion. Work is in progress on these measures and we are confident that the results will be visible in the near future. FDI inflows in Q1 were USD 9.14 billion, an increase of 70 percent over the same quarter last year. Exports have risen by 11.7 percent in July 2013 over July 2012 and the trade deficit in June and July 2013 has narrowed to USD 12.3 billion each month. Net services exports have increased every month since April. These were USD 6.1 billion in June 2013 compared to USD 4.5 billion in June 2012. As a result, CAD is narrower. We are exploring structural measures to further reduce the CAD to sustainable levels and, in the meantime, to improve capital inflows.

India's debt indicators are within prudent limits. India does not have excessive public debt (Central and State Governments taken together). The overall public debt to GDP ratio has declined from 73.2 percent in 2006-07 to 66 percent in 2012-13. The economy's external debt is only 21.2 percent of GDP. India's reserves are USD 277 billion.

While the banking sector has seen a rise in non-performing assets, the projects to which the Banks have lent are not inherently “uneconomical” or “unviable”; they are delayed. Steps are being taken to bring them on stream and they will begin to generate revenue. All our banks have a capital adequacy ratio higher than the Basel norms, and this year Government will infuse Rs.14,000 crore to capitalise public sector banks.

Government wishes to state once again, emphatically, that revival and encouragement of growth will continue to be the focus of the Government. Stronger growth will, in course of time, alleviate many of the challenges that we face. Therefore, there is no cause for the panic that seems to have gripped the currency markets and that is feeding into other markets. We are confident that stability will return to these markets and we can get on with the task of promoting investment and growth. ”
