Govt considering raising FDI cap in defence: Rajan

FDI up to 26% permitted in defence; Centre planning to increase it to 49%

Amid worries over a widening current account deficit (CAD), Chief Economic Advisor Raghuram Rajan today said the government was planning to raise the cap on foreign direct investment (FDI) in some sectors, including defence.

"The intent is to expand the cap wherever possible, including defence. The proposal for increasing the limit for the defence sector is being examined," Rajan told reporters.

Currently, FDI up to 26 per cent is permitted in the defence sector. The government is planning to increase it to 49 per cent.

The Department of Industrial Policy and Promotion had mooted the proposal. There is also a proposal to increase FDI in telecom from 74 per cent to 100 per cent. While the Cabinet has approved a hike in the cap in insurance and pension to 49 per cent, a Bill to that effect is pending in Parliament.

FDI inflows will help bridge the CAD, which widened to 6.7 per cent of gross domestic product in October-December 2012 and was estimated to be as high as five per cent in 2012-13. A surge in gold imports have led to the rise in CAD, along with crude oil imports.

Gold imports were not unique to India and were a global phenomenon. There is a need to give better investment options to people, said Rajan.

The chief economic adviser added recent initiatives by the government would push growth in the current year after it fell to a decade low of five per cent in 2012-13. In the January-March quarter, it stood at 4.8 per cent. The finance ministry has estimated the economy to grow at 6.1-6.7 per cent in the current financial year.

"Increasing the growth rate is what we intend to do. And, over time, the measure which have already been taken will also start kicking in, which will increase the growth rate," he said, adding a good Rabi crop and accelerated government spending would catapult growth.

The overall wholesale price inflation is showing signs of easing and efforts should be made to bring down food inflation, Raj said. Retail inflation, too, would come down, he added, expressing hope that it would find reflection in the next monetary policy of the Reserve Bank of India (RBI) on June 17.

Asked whether a tight monetary policy was hurting growth, Rajan said: "To hold RBI responsible for slow growth is an over-statement. RBI's first job is to bring down inflation."

If the government could summon up for the passage of goods and services tax, insurance and companies Bills, that could be a signal to domestic and external investors that there is a forward movement, he added.

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