

Reserve Bank of India boosts FDI efforts, to notify Press Notes 2 and 3 soon

The Reserve Bank will soon notify the controversial Press Notes 2 and 3, four years after they were issued, giving momentum to the government's big-ticket foreign direct investment liberalisation push.

The department of industrial policy and promotion (DIPP), the nodal department for FDI policy, has also circulated a cabinet note for putting in place a stringent definition of 'control', which will help the government clearly ascertain foreign ownership in ventures with FDI.

"Understanding has been reached on these issues...the new changes should be issued shortly," a senior official told ET. This follows discussions between finance minister P Chidambaram and commerce and industry minister Anand Sharma late last month on the issue of defining 'control'.

The UPA government is reviewing the overall FDI policy and sectoral caps as it eyes more stable forms of foreign capital to finance its large current account deficit, estimated at 5% of GDP in 2012-13. Chidambaram has already announced a switchover to global definition of FDI and portfolio investments in the budget. An inter-ministerial panel, headed by department of economic affairs secretary Arvind Mayaram, is expected to make recommendations on the framework for change in definition as also sectoral caps.

With the RBI moving to notify the press notes and the DIPP putting changes in definition of 'control', the government's FDI reform has been put on the fast track.

The government's current liberalisation programme in a way hinges on the Press Notes 2 and 3 of 2009, which made caps below 49% in all sectors irrelevant. DIPP issues norms in form of press notes or consolidated circulars. These press notes have been at the centre of a huge controversy and are yet to become a part of the legal framework. The RBI, involved in a tussle with the DIPP over these press notes, has not notified them under the Foreign Exchange Management Act, which would have given them legal sanctity.

The finance ministry, on its part, pushed for a stringent definition of control in the FDI policy as given in the new Companies Bill, but the DIPP made notification of the press notes mandatory for such a change.

The RBI and the finance ministry have had many rounds of meeting with DIPP officials on this issue.

The issue of control had become relevant after the government modified the FDI policy in 2009 through Press Notes 2 and 3, which said an Indian company having majority foreign ownership or foreign control was a foreign company and any downstream investment by such a company would also be treated as foreign.

Companies having foreign ownership or control below 50% would be Indian owned and controlled and could make downstream investments as well into prohibited sectors or even breach sectoral caps.

(Economic Times)