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India raises foreign investment limit in govt bonds

MUMBAI: India took a handful of measures to prop up the embattled rupee on Monday, including increasing the limit on foreign investment in government bonds by \$5 billion to \$20 billion, the central bank said.

COMMENTARY JONATHAN CAVENAGH, SENIOR FOREX STRATEGIST, WESTPAC, SINGAPORE "Well not the 'shock and awe' the market was looking for but we shall see what else gets announced. Not surprised to see USD/INR higher.

"Until they address longer term structural issues around capital flows and competition in the domestic retail sector which can help bring down inflation pressures, I think market will be left disappointed."

ROBERT PRIOR-WANDESFORDE, ECONOMIST, CREDIT SUISSE, SINGAPORE "From a long-term perspective, raising the foreign investment limit in government bonds is moderately helpful not only for the currency but also for the government to finance its deficit. But it is unlikely to transform the situation.

"To make a meaningful difference to the currency, more stronger measures are required."

SURESH KUMAR RAMANATHAN, FX AND RATES STRATEGIST, CIMB, KUALA LUMPUR "While it does not arrest the immediate pressure on the INR, the structural reforms of engaging foreign flows for a medium term investment should be seen as positive for the INR.

"The INR may have underperformed in the first 6 months of the year but it is increasingly now under an overshoot category, which will ease in coming months. Our call for a firmer INR by year end closing at 51.00 still remains intact."

M. NATARAJAN, HEAD OF TREASURY, BANK OF NOVA SCOTIA, MUMBAI "The market was expecting a slew of measures. The measures announced now won't have any direct material bearing on the rupee. Unless the RBI comes in with more measures, the rupee will fall back to the 57-58 to a dollar levels."

A. PRASANNA, ECONOMIST, ICICI SECURITIES PRIMARY DEALERSHIP LTD, MUMBAI "Given the kind of expectations generated, these measures are definitely underwhelming. The hike in investment limit for foreign institutional investors in government bonds is a positive, because we have seen that foreign investors have been investing in bonds earlier. And so, at the margin, it is a positive for the rupee.

"Fundamentally, I don't believe these measures will do much to improve the currency situation, because the problem plaguing the currency are the twin deficits, and that can only be addressed by cutting the fiscal deficit. And, that is a much tougher job."

RUPA REGE NITSURE, CHIEF ECONOMIST, BANK OF BARODA, MUMBAI "These measures are okay to improve the sentiment in the short term only. These steps will help improve the depth in the government bonds market to some extent, it is a gradual step to more easing. However, investors were looking for introduction of long pending structural reforms, and unless that happens, rupee will not recover on a sustainable basis. But the positive from these measures may linger for a longer time for bonds."

SHAKTI SATAPATHY, FIXED INCOME STRATEGIST, AK CAPITAL, MUMBAI "The measures indicate limited offerings at the government's end to restore the near-term investment sentiment in the economy. Raising the FII (foreign institutional investor) debt investment limit and ECB (external commercial borrowing) relaxation are clearly temporary measures lacking any promising determination to keep the fiscal worry under control. More of the sectoral specific reforms are needed to give the growth impetus to the economy."

PARESH NAYAR, HEAD OF FIXED INCOME AND FX, FIRST RAND BANK, MUMBAI "Obviously the market had discounted much more than the announcement, thus markets have reacted negatively. Few of the measures on ECB and allowing SWFs (sovereign wealth funds) to invest may turn positive but such measures take time".

ABHEEK BARUA, CHIEF ECONOMIST, HDFC BANK, NEW DELHI "These measures, if they are the complete set of measures, are tame, and disappointing compared to the market expectations. The market was expecting hefty inflows through some millennium deposit scheme, or so, but these measures alone won't do much.

"Global factors are likely to take over, and negative momentum may return and the rupee may breach 57 to a dollar and beyond. Will wait for the rest of the day, to see if more measures are coming."

RADHIKA RAO, ECONOMIST, FORECAST PTE, SINGAPORE "Knee-jerk reaction has seen the rupee and stocks pare early gains. The changes announced are positive and will further deepen the domestic bond markets.

"Markets, however, will be disappointed due to the limited boost to fund inflows from these measures and consequently of little immediate help to the local currency."

UPASNA BHARDWAJ, ECONOMIST, ING VYSYA BANK, MUMBAI "The measures announced may provide some relief in the near term, but more drastic measures are required by the policymakers to curb the slide in Rupee. For a more sustained stability in INR, it is imperative that the government initiates some corrective reforms on fiscal management or FDI."

SUBRAMANIAN SHARMA, DIRECTOR, GREENBACK FOREX, MUMBAI "The bigger problem is on the supply-side for dollars. The government needs to boost capital inflows. It needs to address the GAAR (General Anti-Avoidance Rules) and retrospective taxation issues. The current measures will do little to boost

sentiment. The rupee is likely to trade in a 56.60-57 band for the session."

MARKETS - The rupee was at 56.96/97 to the dollar, weakening from 56.55 levels before the announcement. The currency was still up on the day, after closing at 57.12/13 on Friday.

- Benchmark stock indexes erased earlier mild gains to fall, with the main BSE index down 0.2 percent.

BACKGROUND - The Indian rupee posted its worst weekly fall in nine months last week, having slumped to a record low of 57.32 against the U.S. dollar on Friday, hurt by dollar demand from oil firms and gold importers as well the broad risk-off sentiment.

- The Reserve Bank of India left interest rates unchanged last week, defying widespread expectations for a rate cut as it warned that doing so could worsen inflation, disappointing markets.

- Economy has been slowing sharply due to a combination of factors such as high borrowing costs, government inaction on key policies and sluggish global environment.

- Standard & Poor's has said that India could become the first of the so-called BRIC economies to lose its investment-grade status, less than two months after cutting its rating outlook for the country.

- **FACTBOX**-Steps taken by India to support rupee - Industrial output rose just 0.1 percent in April, lower than expectations in a Reuters poll for a 1.7 percent increase. Output fell in March from a year earlier by 3.5 percent.

- Economic growth slowed to 5.3 percent in the March quarter, its weakest pace in nine years and sharply off 9.2 percent rise in the year-earlier period.

- Price pressures remain high with the wholesale price inflation accelerating to 7.55 percent in May from a year earlier, driven by double-digit rises in food and fuel prices.

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