

Chidambaram wants FDI caps relaxed

(Reuters) - Finance Minister P. Chidambaram advocated the removal or relaxation of "outdated" caps on foreign direct investment (FDI) in different sectors, as his government struggles to revive an economy that has posted its weakest growth in a decade.

Chidambaram also said in remarks to Bloomberg TV India on Monday that there was a case for the Reserve Bank of India (RBI) to cut interest rates, a day before the central bank was due to announce its monetary policy decision.

The spotlight will fall on the RBI's monetary policy review on Tuesday, when the central bank is expected to cut policy rates by a quarter percentage point, according to a Reuters poll.

In January, the central bank made its first quarter point cut in nine months as inflationary pressures eased and the central bank placed more priority on halting the loss of momentum in the economy.

"We have argued on the government side that there is a case for lowering policy rates," Chidambaram said, adding that the decision was ultimately up to the central bank governor.

"I think the RBI should take a comfort from what we have announced as the fiscal consolidation path, and I am sure the monetary policy advisory committee will advise the governor appropriately," he said.

India aims to contain its fiscal deficit within 4.8 percent of GDP in 2013/14, and is set to post a deficit of 5.2 percent for the fiscal year ending at the end of this month, just a tad below its revised target of 5.3 percent.

RELAXING FDI RULES

Of 40 analysts polled by Reuters, 32 expect the RBI to cut the policy repo rate by 25 basis points to 7.50 percent, a view in line with a poll conducted in January.

The latest survey was conducted before data released last week showing industrial production expanded in January for the first time in three months while retail inflation picked up slightly in February.

Turning to policy regarding foreign direct investment, Chidambaram said caps applied to different sectors could be relaxed or removed, though any decisions lay with the cabinet.

"Many of these caps are outdated. I think across the board many of these caps can be removed or certainly relaxed," Chidambaram said.

India liberalised rules on foreign investment in the country's supermarket and aviation sectors last year, but many investors would like the government to press ahead with more reforms in order to boost flagging economic growth.

The government has moves pending to to liberalise investment rules in the pensions and insurance sectors.

Economic liberalisation is politically sensitive in India, where there are fears that foreign companies could put local firms out of business and threaten jobs.

(Reuters)