

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1422
ANSWERED ON:03.03.2006
FOREIGN EXCHANGE INFLOW INFLATION
Appadurai Shri M.

Will the Minister of FINANCE be pleased to state:

- (a) the estimated value of currency notes brought into circulation account of inflow of foreign exchange through FDI and FII; and
(b) the contribution of this expansion in currency circulation to the inflation?

Answer

MINISTER OF STATE IN MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a)&(b): There is no one-to-one relationship between Foreign Institutional Investment (FII) and Foreign Direct Investment

(FDI) inflows and currency in circulation in the economy. Currency in circulation depends on a host of factors, such as, the level of economic activity, rural activity and the spread of banking activity in the economy as well as seasonal factors such as festival season demand. Data on FDI and FII flows and currency notes in circulation for the recent years and the WPI inflation is given below:

Year	Currency notes in circulation End-March (Rs. billion)	FDI (US\$ billion)	FII End-March	WPI	Inflation
2001-02	2446.08	6.130	1.505	1.6	
2002-03	2754.02	5.035	0.377	6.5	
2003-04	3197.32	4.322	10.918	4.6	
2004-05 (P)	3612.13		5.653	8.684	5.1
2005-06 (P) #	4154.43##		0.377	4.042	4.0@

P : Provisional ## : As on Feb 10, 2006

: Apr-Nov @ : As on Feb. 11, 2006

Despite large FII and FDI inflows and the build-up of foreign exchange reserves, effective monetary management by the RBI ensures that appropriate liquidity is maintained in the system so that all legitimate requirements of credit are met, consistent with the objective of price stability.