



Newsflash dated September 28, 2010

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FII Investment Caps Increased

As per a press release issued by the Ministry of Finance dated September 23, 2010, the finance ministry has raised the cap for investment by foreign institutional investors in government securities to \$10 billion from \$ 5 billion and in corporate bonds to \$ 20 billion from \$ 15 billion. However, the incremental \$ 5 billion can only be invested in government securities with a residual maturity of over five years and corporate bonds with residual maturity of over five years issued by companies in infrastructure sector. According to the Government, FII investment policies have been reviewed in the context of India's changing macroeconomic situation, its increasing attractiveness as an investment destination and need for additional financial resources for the infrastructure sector.

For quite some time, foreign Investors had been seeking a revision in the investment limits, as they had almost exhausted the limits set for them. This progressive policy change by the government is expected to increase the inflow of FII investments in debt securities and aid in the growth of Government securities and corporate bond markets. Banks will benefit from this policy revision, as it will result in the reduction of the pressure on them to increase interest rates as the demand for loans has shot up recently, particularly in the Infrastructure Sector.

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