

Corpsec Hotline

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INDIA GEARING UP FOR FULL CONVERTIBILITY

The Prime Minister of India, Mr. Manmohan Singh, asked the Finance Minister and the Reserve Bank of India (RBI) to prepare a road map for full capital account convertibility.

Capital account convertibility effectively means full freedom to convert rupee into foreign currencies to buy stocks, properties and other capital assets abroad by resident Indians and vice versa. While India had already moved to full convertibility on current account almost a decade ago, it also undertook partial convertibility on capital account by liberalizing transactions like overseas merger & acquisitions by Indian companies, investment by mutual funds in overseas securities, etc.

Considering the country's robust domestic growth combined with comfortable financial position with foreign exchange reserves of almost USD 140 billion, the Prime Minister has desired a need to move towards full convertibility. To start with, the idea of full convertibility would be tested by first introducing these reforms in the Special Economic Zones (SEZs) and depending on the impact within the SEZs, the same may be implemented all over the country.

India's endeavour to introduce capital account convertibility dates back to 1997 when a committee headed by Mr. S.S. Tarapore at the behest of the RBI had undertaken a detailed study to chart out the road map to full convertibility. However, the immediate melt down in the Asian economy had deferred the implementation of the current account convertibility.

This move by the Prime Minister is likely to bolster the confidence level in the foreign investors towards India. The Prime Minister also believes that besides attracting more capital to the country, such a move would transform cities like Mumbai into a global financial center.

- **Kishore Joshi & Siddharth Shah**

You can direct your queries or comments to the authors

Source: *The Economic Times*, March 19, 2006

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