

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:230
ANSWERED ON:12.03.2010
COMMITTEE ON FULLER ACCOUNT CONVERTIBILITY
Barq Shri Shafiqur Rahman;Panda Shri Prabodh

Will the Minister of FINANCE be pleased to state:

- (a) the current status of implementation of the recommendations of Committee on Fuller Account Convertibility;
- (b) the benefits likely to accrue to the economy as a result of implementation of these recommendations, sector-wise;
- (c) whether the Union Government has resolved the differences over the issue of implementation of the said recommendations;
- (d) if so, the details of each such issue resolved; and
- (e) the time by which full convertibility of rupee is likely to be brought about?

Answer

MINISTER OF FINANCE(SHRI PRANAB MUKHERJEE)

(a) to (e): A Statement is placed on the Table of the House

Statement referred to in the reply to Lok Sabha Starred Question No. 230 by Dr. Shafiqur Rahman Barq and Shri Prabodh Panda, Members of Parliament, for 12th March, 2010 regarding 'Committee on Fuller Account Convertibility'

(a): The Committee on Fuller Capital Account Convertibility (also known as the Tarapore Committee) submitted its report to the Reserve Bank of India on July 31st, 2006. It recommended specific measures relating to external transactions. These were to be implemented in three phases. Implementation of Phase-1 and Phase-2 measures is almost over and Phase-3 measures are in the process of implementation.

(b): Capital account convertibility is considered to be one of the major features of a developed economy. It helps attract foreign investment. It offers foreign investors added comfort as they can re-convert local currency into foreign currency at anytime they want to and take their money away. At the same time, capital account convertibility makes it easier for domestic companies to tap foreign markets. When there is progressive integration of the domestic economy with the global economy in a Fuller Capital Account Convertibility regime, the interaction of domestic markets with global markets results in enhanced cross-border capital flows. Fuller capital account convertibility benefits financial institutions in areas such as increased diversification, greater access to capital, and a broader range of risk management tools. However, considering the risks involved in opening the Indian economy fully by allowing complete convertibility of the Rupee, the Government and RBI have adopted a calibrated approach.

(c) and (d): The implementation of the recommendations of the Committee on fuller Capital Account convertibility is an ongoing process and actual implementation depends on macro-economic parameters. The Government, in consultation with the RBI, resolves internal differences, if any that come up in the process of implementation.

(e): India has followed a gradualist approach to liberalization of its capital account. Taking lessons from the international experience, the Committee suggested a number of pre-conditions, attainment of which was considered necessary for the success of the capital account liberalization programme in India. Fiscal consolidation, lower inflation and a stronger financial system were seen as crucial signposts for India. The Committee did not recommend unlimited opening up of the capital account, but preferred a phased liberalization of controls on outflows and inflows. The appropriate policy in this regard also depends on the state of the economy, the level of reserves, the quality of existing prudential regulation, the exchange rate management and the likely persistence of the inflows. The Full convertibility of rupee is our ultimate destination and we are taking gradual steps towards this. However, it is felt that it is not time to jump to that destination at one go now.