GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2828
ANSWERED ON:30.03.2012
FULL ACCOUNT CONVERTIBILITY QUESTION
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Will the Minister of FINANCE be pleased to state:

(a) whether all the recommendations of the Committee on Full Account convertibility have been implemented;

(b) if so, the details alongwith the present status thereof and if not, the reasons therefor;

(c) the extent by which the economy of the country is likely to be benefitted by the implementation of these recommendations;

(d) whether the Government has resolved the differences over the issue of implementation of the aforesaid recommendations; and

(e) if so, the details of each such issue which have been resolved thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b): 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. India is following a calibrated approach to capital account convertibility. The capital account is being liberalized in stages in line with developmental requirements and keeping in view the domestic and global economic situation. The committee 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.

(c): 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. At the same time, premature introduction of full capital account convertibility could expose the economy to increased surge and reversal of capital flows that would have implications for exchange rates, stock and real estate markets and price stability. Beside, rapid liberalization of external commercial borrowing policy could increase external debt burden that would strain balance of payments and could expose Indian corporates to balance sheet pressures during financial crisis. Hastening the process of capital account convertibility, therefore, would have macroeconomic and financial stability implications.

(d) & (e): 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 and global developments.