Capital Account Convertibility

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About Capital Account Convertibility:

- **Balance of Payments Account:** It is a statement of all transactions between a country and the outside world. It consists of two accounts:
  - **Current Account:** Deals with the import and export of goods and services.
  - **Capital Account:** Involves cross-border movement of capital via investments and loans.
- **Current Account Convertibility:** Freedom to convert rupees to other currencies for payments without restrictions.
- **Capital Account Convertibility:**
  - Freedom to conduct investment transactions without constraints.
  - No limits on converting rupees to foreign currency for asset acquisition.
  - No limits on NRIs bringing in foreign currency to acquire assets in India.
- **Why is it important?**

Caution in Developing Countries: Inflows and outflows of capital are volatile, can cause excessive currency appreciation/depreciation, and impact monetary and financial stability.

- **India’s Progress**:

- **Partial capital account convertibility** achieved.
- India's cautious approach in opening its capital account was praised after the **1997 East Asian currency crisis** revealed issues with high current account imbalances and volatile short-term capital flows.
- The **2006 SS Tarapore committee** report highlighted that even countries with strong fiscal positions could face currency crises and rapid exchange rate deterioration.

Q1. What is rupee convertibility?

Rupee convertibility refers to the ability to freely exchange the Indian rupee for other foreign currencies or assets without significant restrictions or controls imposed by the Reserve Bank of India (RBI) or the government. It allows for the conversion of rupees into other currencies at market rates, enhancing international trade and investment.

Source: RBI's agenda: capital account liberalisation, globalisation of the rupee and digital payment system