IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

A GLIMPSE INTO CAPITAL ACCOUNT CONVERTIBILITY

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Abstract
Capital Account convertibility implies the freedom of converting domestic financial assets into overseas financial assets and vice versa. More lavishly speaking, it is the freedom enjoyed by the firms and residents of any country to freely purchase of foreign assets like equity, property, bonds, acquiring ownership of foreign firms. In short current Account Convertibility is the freedom to convert domestic assets into foreign assets with price mechanism. That is everything can be determined by the market. It allows any person to convert the home currency into foreign currency. It can be done by removing all the barriers in international transactions, which is possible only through full currency convertibility and opening the financial system to the world.

Key Words: Current Account, Rupee Convertibility, Foreign Assets.

INTRODUCTION
Capital Account convertibility implies the freedom of converting domestic financial assets into overseas financial assets and vice versa. More lavishly speaking, it is the freedom enjoyed by the firms and residents of any country to freely purchase of foreign assets like equity, property, bonds, acquiring ownership of foreign firms. In short Current Account Convertibility is the freedom to convert domestic assets into foreign assets with price mechanism. That is everything can be determined by the market. It allows any person to convert the home currency into foreign currency. It can be done by removing all the barriers in international transactions, which is possible only through full currency convertibility and opening the financial system to the world.

By A.V. Rajwade Current Account Convertibility is backed up by two concepts, namely; flotation and convertibility. Full float means the exchange rate is determined by the demand and supply, with no intervention from the part of RBI to influence the exchange rate in any manner. On the other hand by full convertibility, that is full capital account convertibility means the unregulated right of the residents and non-residents, to convert the home currency into foreign currency and vice versa.

POSING THE PROBLEM
Usually Current Account Convertibility means the freedom to convert domestic assets into foreign assets with price mechanism that is adopted with the aim of enhancing the economic growth. But there is no conclusive evidence that the adoption of liberal capital account convertibility foster the economic growth. Because there is no surety that, there is free flows of international transactions even if with a liberal policy regime in current account convertibility.

IMPORTANCE
Current Account Convertibility is the freedom to convert domestic assets into foreign assets with price mechanism. That is everything can be determined by the market. It allows any person to convert the home currency into foreign currency. It can be done by removing all the barriers in international transactions, which is possible only through full currency convertibility and opening the financial system to the world. So the suggested Full Capital Account Convertibility enhances economic growth.

METHODOLOGY
The study based on secondary data. Sufficient secondary data pertaining to the key areas of the study will also be collected from the files & documents of government. Information's from the government publications such as Economic survey, report from the department of economics and statistics and various text books were also used for collecting information.

REVIEW OF RELATED LITERATURE
S.S. Tarapore Committee Report (1997) Capital Account Convertibility (CAC) as the freedom to convert local financial assets into foreign financial assets and vice versa at market determined rates of exchange. As per the report for attaining capital account convertibility certain conditions should be satisfied, they are fiscal consolidation, mandated inflation target and strengthening the financial sector. It also says that the current account deficit should not exceed 1.6 per cent of GDP and combined fiscal deficit of centre and state should be around 3.5 percent of GDP. **Shrawan Kumar Singh (2013)** he says capital account convertibility enable the resident to make and receive trade related payments receive dollars for export of goods and services and pay dollars for import of goods and service. **A.V. Rajwade** explains capital account convertibility is the unfettered right of residents and nonresidents to convert the home currency into foreign currency and vice versa.

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OBJECTIVES

- To illustrate the arguments for and against for Current Account Convertibility.
- To identify various measures for liberalizing Capital Account.

DATA ANALYSIS

Capital account liberalization has been viewed by many of the economists as an important determinant for the opening up of international trade and financial markets. Along with the advocating of removing the restrictions on International trade on goods, they support full Capital Account Convertibility. The main arguments are the following;

- Economic growth can stimulate by free Capital Account Convertibility.
- Developing countries need external capital to withstand an excess of investment over domestic saving and an open capital account can attract foreign capital. It is also argued that such capital flows can have favorable 'spillover effects also in the form of technology, skills, and introduction of new products as well as positive externalities in terms of higher efficiency of domestic financial markets resulting in improved resource allocation and efficient financial intermediation by domestic financial institution.
- Hence effective implementation of capital controls becomes more and more difficult in a globalised economy; this de facto situation should be recognized de jure by lifting controls on capital account convertibility.
- Full capital account convertibility will force governments to behave more responsibly on fiscal balances. Unsustainable deficits would frighten investors, leading to capital flight from the country- and this danger would force governments to act more responsibly in controlling fiscal deficits.
- As per A.V. Rajwade , there is no conclusive evidence to suggest that a liberal capital account leads to faster economic growth.
- Next argument is that there is no necessary link between augmented capital inflows and full convertibility in current account, what matters is the economic and industrial performance of the country and not capital account convertibility.
- Another argument s that owing to full convertibility, major inflows were in the form of hot money, which was awfully susceptible to the expectation and speculation.
- Final argument is that the outflow's benefits are negatively correlated to the health of the domestic economy.

IMPORTANT CAPITAL ACCOUNT LIBERALIZATION MEASURES

Capital Account Convertibility is followed by India because of the Tarapore Committee. It has broadly been accepted since 1997-98. Important measures adopted by our country are the following.

- All NRI deposits scheme have made fully convertible.
- They are free to send home in foreign currency in India such as rent, dividend, pension, .interest and other payments.
- Indian citizens have allowed maintaining foreign currency accounts more of foreign exchange retained from travel expenses.
- Both the listed and residents have permitted to invest in stock exchanges in abroad.
- Without the consent from the ministry of finance, Indian companies can access American Depository Receipts/Global Depository Receipts market through an automatic route.
- FDI is allowed up to 100 per cent in automatic route in most sectors subject to rules and regulations.
- Under certain conditions External commercial borrowing have been allowed up to $ 500 million US.
- Indian companies can make FDI in foreign Joined Stock Companies without the approval of RBI.
- On the basis of certain rules and regulations investment is permitted in foreign financial sector.
- Under cashless Stock Option Scheme an Indian resident can acquire foreign securities by way of gift and inheritance.
- Indian companies set up overseas office have allowed acquiring immovable properties for their business as well as staff residential purpose.
- Two categories of Exchange Earners Foreign Currency have been specified. One can retain 100% receipt and the other can 50%.
- An NRI is permitted to sell or purchase shares and debentures through a recognized stock broker in a reputed stock exchange.
- Authorized dealers can also permit to borrow foreign currency with certain conditions.
- For facilitating export the commercial bank can provide credit to the overseas companies.
- Banks are permitted to receive gold under gold deposit scheme and they import gold from anywhere by law.

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- RBI allowed the Indian resident to remit up to $25000 in a calendar year for any current account or capital account transaction or both. It enable the Indian residents not only to open and operate foreign currency accounts outside India, but also to use the money remitted to those accounts to acquire financial or immovable assets without prior approval from RBI.
- The government has relaxed the remittance norms to step up the current account convertibility. Due to this no permission is needed now to buy health insurance from abroad. Advertisement can also allow in foreign channel without any limit. RBI's permission is not necessary to have short term credit for foreign offices. Paying to technical collaboration does not require the permission from the RBI. Restrictions on use of trademarks and franchise have been removed. And dancers, wrestlers and entertainers will not require the permission from the RBI to make the payment abroad.
- As per the guidelines issued on January 12, 2005 transfer of shares is an existing Indian company has been allowed under automatic route except in financial sector and where the provisions of SEBI regulations are attracted, conversion of loans into equity has been allowed under the automatic route provided the activity is covered under the automatic route and the foreign equity after such conversion falls within the sectoral cap. And conversion of preference shares into equity has been allowed under the automatic route provided the increase in foreign equity participation is within the sectoral cap in the relevant sectors and the activity is under the automatic route.
- In a phased manner, RBI has liberalized limits on the foreign investment by the companies from 200 percent to 400 percent of their net worth. This is due to the reason that many Indian companies are now acquiring large companies overseas.

CONCLUSION

Current Account Convertibility offers an assortment of challenges to the RBI, the banks, the corporate and the market. While the modifications that Tarapore committee has made are necessary parts of the process of breach up, they are not ample in themselves. There is a peril that they may be treated as sermons on the mount to be heard and not followed, what is vital therefore is to get our cast list ready for the global market place. Convertibility want not be our overruling precedence. There is no need or use to hustling towards Current Account Convertibility's movement should be at a swiftness we are comfy with, taking into account all germane factors and the environment, in which our country has to function. At habitual intervals, in the course, we should keep an eye on pertinent information, monitor policies adopted and their actual accomplishment. The programme can be accelerated of decelerated depending upon the recital through the established pre conditions and modifications should be introduced from time to time in the luminosity of the skill gained.

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