

## CHAPTER 1

### INTRODUCTION

The Prime Minister, Dr. Manmohan Singh in a speech at the Reserve Bank of India, Mumbai, on March 18, 2006 referred to the need to revisit the subject of capital account convertibility. To quote:

“Given the changes that have taken place over the last two decades, there is merit in moving towards fuller capital account convertibility within a transparent framework...I will therefore request the Finance Minister and the Reserve Bank to revisit the subject and come out with a roadmap based on current realities”.

1.2 Dr. Y.V. Reddy, Governor, Reserve Bank of India (RBI), in consultation with the Government of India, appointed, on March 20, 2006, a Committee to set out the Roadmap Towards Fuller Capital Account Convertibility consisting of the following:

(i)	Shri S.S. Tarapore	Chairman
(ii)	Dr. Surjit S. Bhalla	Member
(iii)	Shri M.G. Bhide	Member
(iv)	Dr. R.H. Patil	Member
(v)	Shri A.V. Rajwade	Member
(vi)	Dr. Ajit Ranade	Member

Shri K. Kanagasabapathy, Consultant, Monetary Policy Department, RBI was the Secretary of the Committee, who together with Smt. Meena Hemchandra, Chief General Manager, Department of External Investments and Operations, Dr. R.K. Pattnaik, Adviser, Department of Economic Analysis and Policy and Shri M. Rajeshwar Rao, General Manager, Foreign Exchange Department formed the Secretariat.

The terms of reference of the Committee were:

- (i) To review the experience of various measures of capital account liberalisation in India,
- (ii) To examine implications of fuller capital account convertibility on monetary and exchange rate management, financial markets and financial system,

- (iii) To study the implications of dollarisation in India of domestic assets and liabilities and internationalisation of the Indian rupee,
- (iv) To provide a comprehensive medium-term operational framework, with sequencing and timing, for fuller capital account convertibility taking into account the above implications and progress in revenue and fiscal deficit of both centre and states,
- (v) To survey regulatory framework in countries which have advanced towards fuller capital account convertibility,
- (vi) To suggest appropriate policy measures and prudential safeguards to ensure monetary and financial stability, and
- (vii) To make such other recommendations as the Committee may deem relevant to the subject.

The Committee commenced its work from May 1, 2006 and was expected to submit its report by July 31, 2006. The Memorandum appointing the Committee is at Annex IA.

1.3 Governor, Dr. Y.V. Reddy as part of his Annual Policy Statement for the year 2006-07 on April 18, 2006 said:

“While a gradual approach to liberalisation of capital account in India has paid dividends so far, continuation of the gradual process may warrant that some hard and basic decisions are taken in regard to macro-economic management, in particular monetary, external and financial sector management”.

1.4 Governor, Dr. Y.V. Reddy addressed the Committee at its first meeting on May 6, 2006. Deputy Governors, Dr. Rakesh Mohan, Shri V. Leeladhar, Smt. Shyamala Gopinath and Smt. Usha Thorat also addressed the Committee at subsequent meetings. The Committee is deeply appreciative of insights provided by the top management of the RBI. The Committee also had the opportunity of discussions with Smt. K.J. Udeshi, Chairperson, Banking Codes and Standards Board of India (who, till recently was Deputy Governor, RBI) and Shri S. Narayanan, who was earlier India’s Ambassador to the World Trade Organisation. Shri Anand Sinha, Executive Director provided valuable help to the Committee on banking and foreign exchange regulations.

1.5 A number of RBI officials provided support to the Committee including: Shri Himadri Bhattacharya, Chief General Manager-in-Charge, Department of External Investments and Operations, Dr. Michael Debabrata Patra,

Adviser-in-Charge and Dr. Mohua Roy, Director (Monetary Policy Department), Shri Prashant Saran, Chief General Manager-in-Charge, Shri P. Vijaya Bhaskar, Chief General Manager and Shri K. Damodaran, General Manager (Department of Banking Operations and Development), Shri Chandan Sinha, Chief General Manager and Dr. Mridul K. Saggur, Director (Financial Markets Department), Shri G. Mahalingam, Chief General Manager and Shri T. Rabi Sankar, Deputy General Manager (Internal Debt Management Department), Dr. Janak Raj, Adviser, Department of Economic Analysis and Policy and Shri Vinay Baijal, Chief Executive Officer, Banking Codes and Standards Board of India. The Committee is deeply indebted to all these officials for their help.

Other persons and organisations which provided material are set out in Annex IB.

1.6 Dr. Benu Schneider, Chief of International Finance, Department of Economic and Social Affairs, United Nations and Dr. A. Prasad, Adviser to Executive Director for India at the International Monetary Fund helped the Committee with various papers and notings.

1.7 The Committee wishes to place on record that the four-member Secretariat led by Shri K. Kanagasabapathy and including Dr. R.K. Pattnaik and Shri M. Rajeshwar Rao and Smt. Meena Hemchandra put in painstaking efforts to meet the exacting requirements of the Committee's work and their performance reflected a touch of class. These four officials fully participated in the Committee's deliberations and provided exemplary support to the Committee. In particular, Shri K. Kanagasabapathy, as Secretary of the Committee played a pivotal role in co-ordinating the work of the Committee and in the preparation of the Report. The Committee is appreciative of the administrative support of the Department of External Investments and Operations.

The three members of the secretarial staff, *viz.*, Shri R.N. Iyer, Private Secretary, Smt. Hazel G. Quadros, Private Secretary and Smt. Sudha P. Shetty, Stenographer worked under pressure with great diligence and dedication, well beyond the call of duty.

1.8 The Committee had 12 formal meetings and a number of informal meetings.

1.9 The Report is set out in nine chapters: Chapter 2 provides an overview of fuller capital account convertibility (FCAC) and the Committee's approach. Chapter 3 attempts to assess the progress since 1997 towards capital account convertibility. Chapter 4 draws attention to the concomitants for a move to fuller capital account convertibility and Chapter 5 discusses the interaction of monetary policy and exchange rate policy. The development of financial markets is discussed in Chapter 6 while issues of regulation/supervision are outlined in Chapter 7. Chapter 8 sets out the roadmap for fuller capital account convertibility in India with specific focus on the timing and sequencing of measures. A summary of observations/recommendations of the Committee is contained in Chapter 9.