

# Convertibility of Currency

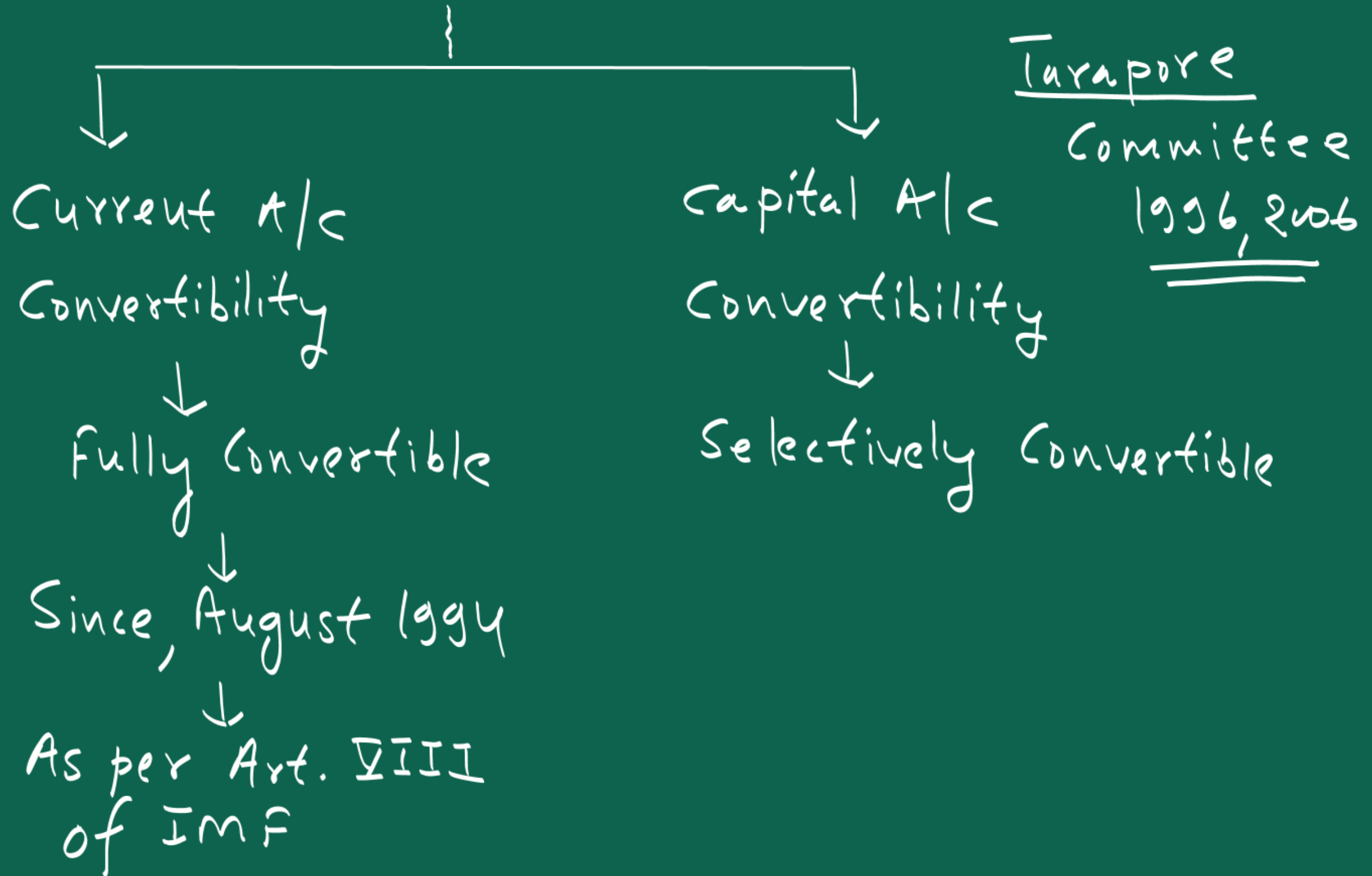
(i) Meaning -

It is a concept of liberalisation under which the domestic currency can be converted into foreign currency & vice versa for the purpose of the BOP transactions.

Under it, various restrictions, controls, regulations governing the BOP transactions are either relaxed sufficiently or removed completely.

(ii)

## Status of Indian Rupee (Convert.)



Note -

Thus, from the above, it  
can be said that -

'Indian Rupee is not  
fully convertible.'

FDI = Foreign Direct Investment

(i) Meaning -

It is an investment by a single foreign investor into the equity of a single company of the host country to the extent of 10 % or more.



# FDI

|                               |                       |                                                |
|-------------------------------|-----------------------|------------------------------------------------|
| Single<br>Foreign<br>Investor | 10% or more<br>Equity | Single<br>Company<br>of the<br>host<br>Country |
|-------------------------------|-----------------------|------------------------------------------------|

Example -  
Walmart  $\xrightarrow[Equity]{77\%}$  Flipcart



(ii) Nature —

✓ Long Term

└ Stable

└ Non-reversible

{ becomes  
favourable  
for the  
host country

(iii)

Types

↓  
Greenfield  
FDI

↓  
Forms a completely  
new company

↓  
Brownfield  
FDI

↓  
Investment is  
done in an already  
existing company.



(iv) Calculation of FDI in India



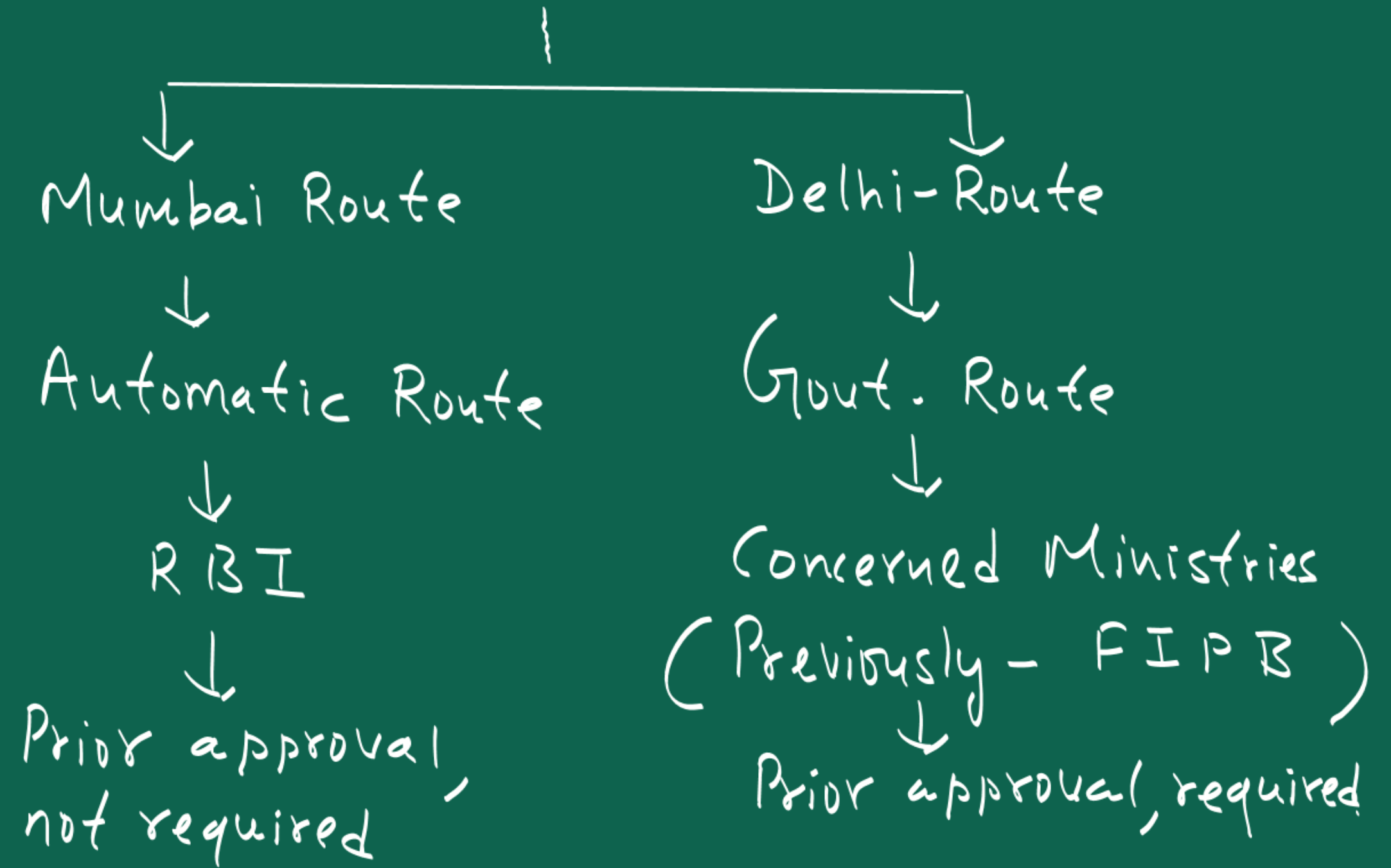
The following items are added together -

(a) Equity Inflows

(b) Reinvested Earnings

(c) Other capital

## (V) Routes of Permission



(vi) Benefits -

(a) Increase in capital formation.  
(in case of greenfield FDI)

(b) New Technology comes.

(c) Marketing skills — ↑

(d) Managerial skills — ↑

(e) Forex Reserves — ↑

(f) Exports — ↑

## FPI : Foreign Portfolio Investment

(i) Meaning -

Investment by foreigners in various entities of the host country in such a manner that investors do not get controlling power in investee entities.

(ii) Nature -

(a) Short-term

(b) Volatile

(c) Reversible

(d) Fair-weather friend

Hot  
Money

### (iii) Benefits -

(a) provides liquidity  
↓  
in financial market.

(b) provides finance  
↓  
for CAD.

(c) Improves → Corporate  
Governance.

(d) Improves → financial markets, etc



This investment can be done in equities, bonds, debentures etc.

In case of equity, it should be less than 10 %.

This investment comes largely through stock market but it can also come through the primary market.