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.)

Current A/c Convertibility

↓

Fully Convertible

↓

Since, August 1994

↓

As per Art. VIII of IMF

Capital A/c Convertibility

↓

Selectively Convertible

Tarapore Committee 1996, 2006

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 Foreign Investor	$\xrightarrow[\text{Equity}]{\text{10\% or more}}$	Single Company of the host Country

Example –

Wallmart $\xrightarrow[\text{Equity}]{77\%}$ 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

- Mumbai Route → Automatic Route → RBI → Prior approval, not required
- Delhi-Route → Govt. Route → Concerned Ministries (Previously - FIPB) → Prior approval, required

(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) <u>Meaning</u> -

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.