Q. What is meant by capital account Convertibility? How does it influence the growth of the economy in the Country? Explain.

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→ Capital Account Convertibility (CAC) :-

→ It implies the freedom to convert domestic financial assets into overseas financial assets at market determined rates.

→ India has come a long way in liberating the capital account transactions in the last 3 decades and currently has Partial capital account convertibility.

→ Some of the recent moves include increasing the foreign portfolio investment limits in the Indian debt markets, NRI can invest in specified govt securities without any restrictions, Inward FDI is allowed in most sectors (100%).

→ $\boxed{\text{Cautions in Opening their Capital Account}}$

⇒ 1. The Inflow and Outflows of the foreign and domestic capital, which are prone to volatility, can lead to excessive appreciation / depreciation of their Currency and impact the monetary and financial stability.

2. The $\boxed{\text{SS Tarapore Committee's}}$ report on CAC released in 2006 Points

out that most currency crisis arise out of Prolonged overvaluation in exchange rates leading to unsustainable Current account deficits. An excessive appreciation of exchange rate can causes "exporting industries to become unviable, & import to become much more Competitive"; causing Current account Deficit to worsen.

How does it benefits economies?

:- (1) Once a Country eases capital controls, typically there is a surge of capital flows, to finance their investments for further growth.

(2) Local residents would be in position to diversify their portfolio of assets.

(3) It also offers better access to global markets.

(4) It helps global investors to seek higher returns by sharing risks.

Thus, transparent fiscal Consolidation is necessary to reduce the chances of a currency crisis. If we want sustainable economy then balanced policy should be follow for Capital Account Convertibility.