Rajan bats for full rupee convertibility

PUNE: Reserve Bank of India governor Raghuram Rajan said on Friday that India is “fairly” open on capital inflows and hoped that there would be full capital account convertibility in a short period.

“The only place today that we have some restrictions is inflows into debt, especially very short term debt,” Rajan said. “I think that most people would agree that opening up to short term debt flows is usually not very clever for reasons of financial stability. My hope is that we will get to full capital account convertibility in a short number of years.”

Rajan was responding to questions posed by students at the Gokhale Institute of Politics and Economics in Pune.

Full capital account convertibility typically implies no restrictions on the amount on cross-border movement of currency. So far, India only allows current account convertibility, where forex is available for imports and exports.

In his address, Rajan also criticised the easy money policies adopted by many developed countries after the financial crisis. He said such policies were only leading to huge debt, and some developing countries were also getting affected.

He pointed to the high debt in China and also rising household debt in Brazil. Thankfully, India is still unaffected, he said.

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Earlier in the day, in an address to students at the convocation of the National Institution of Bank Management (NIBM), Rajan said the banking sector is set to change significantly over the next few years, thanks to the various measures adopted to grow the industry.

“We are going to have a whole set of new institutions — payments banks, small finance banks and we are going to possibly have a postal bank. The existing institutions are going to change tremendously, with public sector banks playing as change agents in this context,” the RBI governor said.

He told the students that the changing banking system would spawn many different opportunities, such as in the derivatives markets.