



MACRO ECONOMICS

Capital flows and convertibility

How freely money moves in and out of India, why the gate is managed, and the impossible trinity

Rules as on 16 October 2026; flow data to early October 2026

For training and education only. Not investment advice.

Convertibility is how freely rupees can be changed into foreign currency and back, purpose by purpose.

For trade, travel and other current transactions, the rupee has been convertible since 1994. For buying assets across borders, India opens the gate step by step.

Four terms to know



Current account

Trade in goods and services, income and remittances. The rupee has been convertible for these since August 1994.



Capital account

Buying and selling assets across borders: shares, bonds, property, loans and stakes in companies.



Convertibility

Freedom to convert local financial assets into foreign ones and back, at market-determined exchange rates.



FDI and FPI

FDI: 10% or more of a listed firm, or any stake in an unlisted one. FPI: under 10% of a listed firm, and bonds.

Sources: RBI chronology 1991-2000; Tarapore Committee report, RBI, 1997 (working definition); FEMA Non-debt Instruments Rules, 2019.

Why foreign investors watch the rupee

THE SET-UP (ASSUMED)

A foreign investor converts US\$ 10,00,000 into rupees at ₹90 a dollar and buys a rupee bond.

The bond earns 7% over the year.

All figures are assumed.

- 1 US\$ 10,00,000 $\times$ 90 = ₹9.00 crore invested.
- 2 After a year at 7%: ₹9.00 crore $\times$ 1.07 = ₹9.63 crore.
- 3 If a dollar now costs ₹94: ₹9.63 crore $\div$ 94 = US\$ 10,24,468, a 2.45% return in dollars.
- 4 If a dollar costs ₹88 instead: ₹9.63 crore $\div$ 88 = US\$ 10,94,318, a 9.43% return in dollars.

For a foreign investor, the rupee's move can matter as much as the bond's yield. Flows respond to both.

Illustration with assumed figures. Not a forecast of yields or exchange rates.

How open is the gate? Four examples

Flow	The rule	Limit
FPIs in Central G-secs: general route	An overall limit set by RBI each half-year. The short-term, security-wise and concentration limits were removed on 5 June 2026.	₹4,77,006 crore (Oct 2026 to Mar 2027)
Foreign investors in G-secs: FAR	The Fully Accessible Route: specified government securities that non-residents can buy without any investment ceiling.	No ceiling
Individuals investing abroad	Liberalised Remittance Scheme: per person, per financial year, for permitted current or capital account purposes.	US\$ 2,50,000
Indian mutual funds abroad	Industry limit on overseas securities; each fund house may invest up to US\$ 1 billion within it.	US\$ 7 billion

Sources: RBI A.P. (DIR) Circular No. 11, 5 Jun 2026; RBI A.P. (DIR) Circular No. 25, 30 Mar 2020; RBI LRS FAQ; SEBI Master Circular for Mutual Funds, Mar 2026.

How India has opened up, step by step

1

Aug 1994: current account

India accepted Article VIII of the IMF's Articles. The rupee became convertible for current transactions.

2

1997 and 2006: committees

Two RBI committees chaired by S.S. Tarapore set out conditions and a roadmap for wider capital account convertibility.

3

Feb 2004: LRS begins

Resident individuals could remit up to US\$ 25,000 a year. The limit has been raised in stages to US\$ 2,50,000.

4

Apr 2020: FAR opens

Non-residents could buy specified government securities without any investment ceiling.

5

2024-26: bonds go global

Indian G-secs began entering global bond indices in June 2024. In June 2026 RBI widened FAR to new 15-, 30- and 40-year issues.

Sources: RBI chronology 1991-2000; RBI committee reports, 1997 and 2006; RBI LRS FAQ; RBI circulars, 30 Mar 2020 and 5 Jun 2026; RBI FSRs, Dec 2023 and Dec 2024.

The impossible trinity

Three goals a country may want at once. With money free to move, it can fully have only two of them.



Fixed exchange rate

The central bank holds the currency at a set rate, or in a narrow band, by buying and selling foreign currency.



Free capital flows

Money can move in and out of the country's assets without controls.



Own monetary policy

The central bank sets interest rates for conditions at home, such as inflation and growth.

Sources: RBI Bulletin article on liquidity and sterilisation, Aug 2018; Report of the Task Force on Offshore Rupee Markets, RBI, Jul 2019.

Pick two: what each choice gives up

Choose these two	Give up	What follows
Fixed rate + free capital flows	Own monetary policy	Interest rates must track the anchor currency's rates, or money flows out.
Free capital flows + own monetary policy	Fixed rate	The exchange rate moves with flows and with interest-rate gaps.
Fixed rate + own monetary policy	Free capital flows	Capital controls stop money moving to exploit the rate gap.
India's approach	Some of each	A market-led rate, RBI curbing volatility, an inflation target, a capital account opened in steps.

Sources: Report of the Task Force on Offshore Rupee Markets, RBI, Jul 2019; RBI Governor's Statement, 7 Oct 2026.

Where things stand

Latest figures published by RBI. Flow data cover the financial year so far.

NET FDI, US\$ BN

13.8

April-August 2026. A year earlier: 9.6.

NET FPI, US\$ BN

-10.3

Net outflow, April to 5 October 2026.

RESERVES, US\$ BN

734.6

Foreign exchange reserves on 2 October 2026.

LRS LIMIT

\$250k

US\$ 2,50,000 per resident individual, per financial year.

Sources: RBI Governor's Statement, 7 Oct 2026 (FDI, FPI, reserves); RBI FAQ on the Liberalised Remittance Scheme (LRS limit).

If you learnt this from older material

What older decks say

- India does not have full capital account convertibility.
- Full convertibility waits on targets set by an RBI committee.
- Convertibility means anyone can move money in or out freely.

What holds now

- Still true. But since April 2020 non-residents can buy specified G-secs with no ceiling.
- Opening has come in steps: LRS has risen from US\$ 25,000 (2004) to US\$ 2,50,000.
- It is set purpose by purpose: open for trade, with limits on some asset flows.

An RBI group (2023): today's convertibility 'gives enough room' to start internationalising the rupee.

Sources: RBI circular, 30 Mar 2020; RBI LRS FAQ; Report of RBI's Inter-Departmental Group on Internationalisation of INR, Jul 2023.

Four things people get wrong



'The rupee is not convertible.'

It has been convertible for current transactions since August 1994. Limits apply mainly to capital transactions.



'Capital controls mean India is closed.'

FDI, FPI and residents' investment abroad all take place within limits. Net FDI was US\$ 13.8 bn in April-August 2026.



'Index inclusion guarantees inflows.'

It widens the pool of foreign buyers. But flows also follow yields, the rupee and global risk appetite.



'A country can have all three.'

With free capital flows, a central bank cannot both fix the exchange rate and set its own interest rates.

Check yourself

Q1

A foreign investor converts US\$ 5,00,000 at ₹90, earns 8% on a rupee bond (assumed), and converts back when a dollar costs ₹96. What is the return in dollars?

Q2

Name the three goals of the impossible trinity. A country fixes its exchange rate and allows free capital flows: what does it give up?

Q3

What is the Fully Accessible Route, and what changed in June 2026?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Convertibility: RBI chronology of events 1991-2000; Report of the Committee on Capital Account Convertibility, RBI, 1997; RBI press release, 1 Sep 2006.
- LRS: RBI FAQ on the Liberalised Remittance Scheme (updated 6 Apr 2023). Mutual fund overseas limits: SEBI Master Circular for Mutual Funds, Mar 2026.
- FAR and FPI limits: RBI A.P. (DIR) Circular No. 25, 30 Mar 2020; A.P. (DIR) Circular No. 11, 5 Jun 2026; RBI Bulletin, 22 Jun 2026.
- Impossible trinity: RBI Bulletin article, Aug 2018; Report of the Task Force on Offshore Rupee Markets, RBI, Jul 2019.
- Flows, reserves and exchange rate aim: RBI Governor's Statement, 7 Oct 2026. Index inclusion: RBI Financial Stability Reports, Dec 2023 and Dec 2024.
- Internationalisation of the rupee: Report of RBI's Inter-Departmental Group, published 5 Jul 2023 (the group's views, not RBI's).

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