

Evolution of capital controls on foreign portfolio investment in India

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Structure

1. Motivation
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Motivation

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Complex history of controls on foreign institutional investment in India

Pre-1995	FII's may invest in financial instruments, subject to RBI permission
1995	SEBI (Foreign Institutional Investors) Regulations, 1995 Not less than 70% of investment by a FII in equity and equity-linked securities
1996	Concept of 100% debt funds
2000	Enactment of FEMA and FEMA 20, bringing FII investment under the regulatory purview of RBI.
2004	Separate limits for investment by FIIs in Government bonds and corporate bonds
2008	No more demarcation of FII investments under 70:30 and 100% route
2014	Enactment of SEBI (Foreign Portfolio Investors) Regulations, 2014
2014	FPIs allowed to invest in exchange traded currency derivatives
2019	New regulations

Motivation (contd.)

Limitations of global indices and databases on capital controls

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 2. One single value of 'financial openness' for the entire year.

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Recent literature has shifted focus from *level* of capital controls to the precise measurement of capital control actions (CCAs). (Forbes, Fratzscher, and Straub 2015)

Motivation (contd.)

An India-specific data-set on capital controls

- Hand-construct a new data-set that captures every single capital control action in relation to foreign institutional investment in India.
- Useful for policymakers, finance practitioners and academic researchers.

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1. Period: 1st January, 2000 until 31st December, 2018.
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3. No. of capital control actions: 163

Description of the data-set (contd.)

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 - Remarks

Summary statistics

Annual time-series of capital control actions

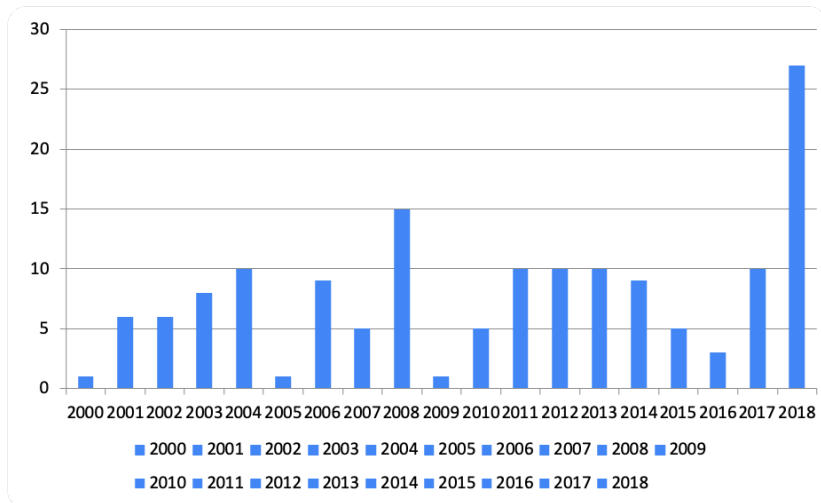


Figure: Number of capital control events by year

Annual time-series of easing and tightening events

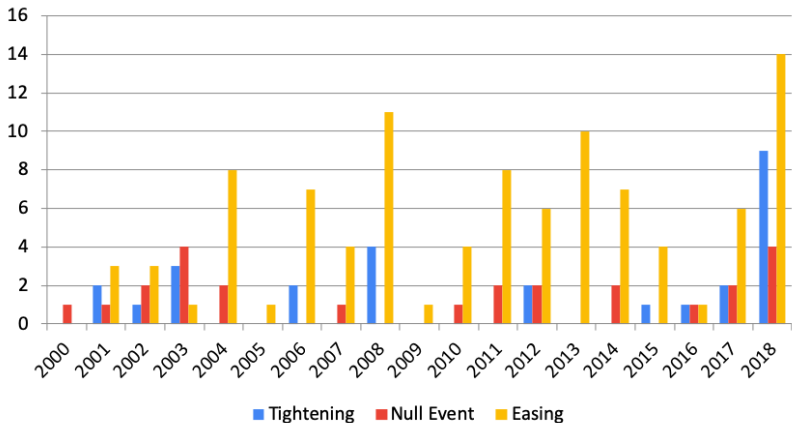


Figure: Year-wise easing and tightening of capital control events

Categories of capital control actions

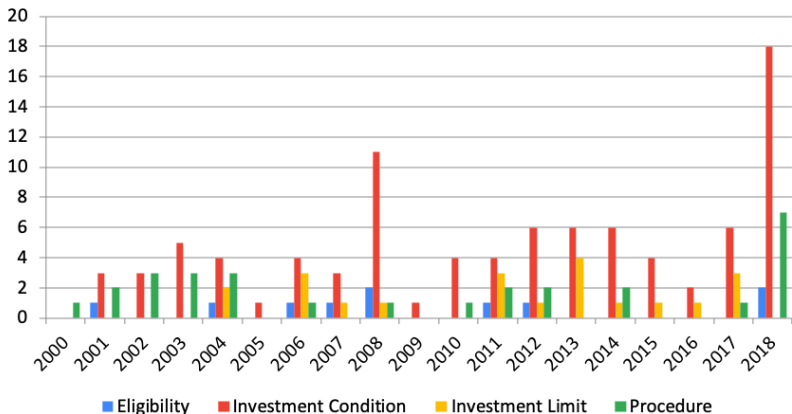


Figure: Categories of capital controls by the year

Easing and tightening across different types of capital control actions

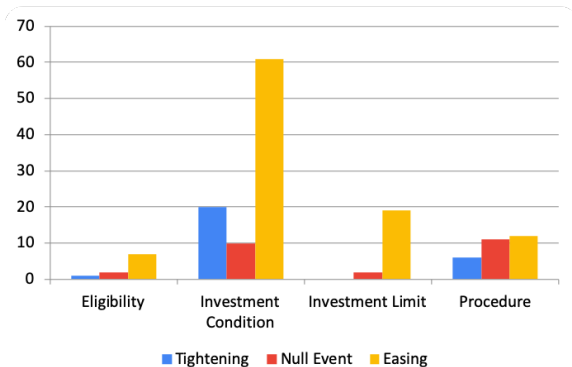


Figure: Easing and tightening of categories of capital controls

Capital control action across asset classes

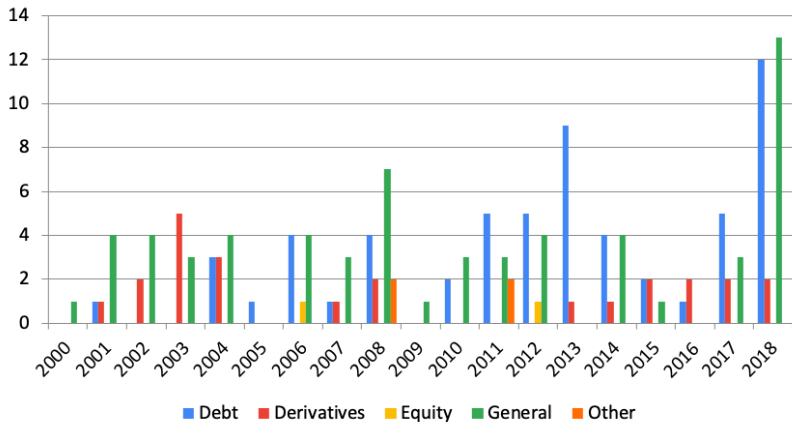


Figure: Capital controls by asset class

Easing and tightening across different asset classes

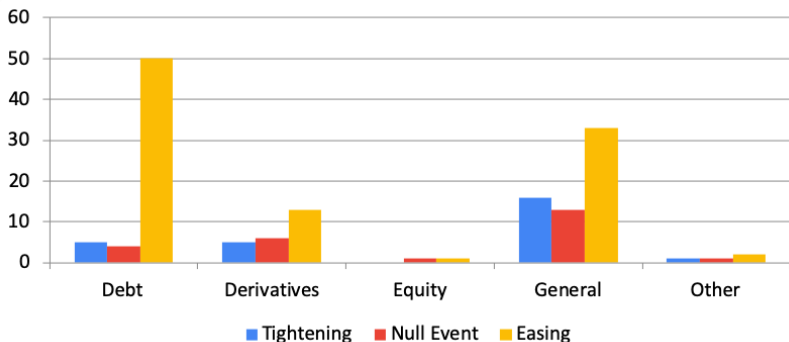


Figure: Easing and tightening of capital controls by asset classes

Questions/ suggestions?



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