Evolution of capital controls on foreign portfolio investment in India

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Structure

1. Motivation
2. Description of the data-set
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Motivation
## Motivation

Complex history of controls on foreign institutional investment in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-1995</td>
<td>FII may invest in financial instruments, subject to RBI permission</td>
</tr>
<tr>
<td>1995</td>
<td>SEBI (Foreign Institutional Investors) Regulations, 1995&lt;br&gt;Not less than 70% of investment by a FII in equity and equity-linked securities</td>
</tr>
<tr>
<td>1996</td>
<td>Concept of 100% debt funds</td>
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<td>2000</td>
<td>Enactment of FEMA and FEMA 20, bringing FII investment under the regulatory purview of RBI.</td>
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<tr>
<td>2004</td>
<td>Separate limits for investment by FIIs in Government bonds and corporate bonds</td>
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<tr>
<td>2008</td>
<td>No more demarcation of FII investments under 70:30 and 100% route</td>
</tr>
<tr>
<td>2014</td>
<td>Enactment of SEBI (Foreign Portfolio Investors) Regulations, 2014</td>
</tr>
<tr>
<td>2014</td>
<td>FPIs allowed to invest in exchange traded currency derivatives</td>
</tr>
<tr>
<td>2019</td>
<td>New regulations</td>
</tr>
</tbody>
</table>
Motivation (contd.)

Limitations of global indices and databases on capital controls

- Several indices measure the level of capital account openness across several jurisdictions (Chinn and Ito 2008; Schindler 2009).
Motivation (contd.)

Limitations of global indices and databases on capital controls

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• Limitations:
  2. One single value of ‘financial openness’ for the entire year.
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Limitations:

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

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.
Description of the data-set
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A data-set on legal restrictions on foreign institutional investors in India (Pandey et al. 2019)
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2. Number of regulatory instruments: 119
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2. Number of regulatory instruments: 119
3. No. of capital control actions: 163
Description of the data-set (contd.)

4. Information captured: every capital control action in relation to FPIs in India
   - Regulatory instrument v. capital control action
Description of the data-set (contd.)

4. Information captured: every capital control action in relation to FPIs in India
   • Regulatory instrument v. capital control action
   • Date of intervention; Year
Description of the data-set (contd.)

4. Information captured: every capital control action in relation to FPIs in India
   - Regulatory instrument v. capital control action
   - Date of intervention; Year
   - Brief description of the capital control action
Description of the data-set (contd.)

4. Information captured: every capital control action in relation to FPIs in India
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   • Date of intervention; Year
   • Brief description of the capital control action
   • Category
     4.1 Investment condition
     4.2 Investment limit
     4.3 Eligibility
     4.4 Procedure
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- Asset class
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  - 4.2 Debt
  - 4.3 Derivatives
  - 4.4 Other
  - 4.5 General
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- Easing/ tightening
Description of the data-set (contd.)

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   - Web-link
   - Easing/ tightening
   - 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?


Pandey, Radhika et al. (2019). “Legal restrictions on foreign institutional investors in a large, emerging economy: A comprehensive dataset”. In: *Data in brief*.