

Liberalised Remittance Scheme (LRS)

14th April, 2018



The Reserve Bank has tightened reporting norms for the Liberalised Remittance Scheme (LRS). Now banks will be required to upload daily transaction-wise information undertaken by them under LRS.

What is it?

Under LRS, all resident individuals can freely remit \$250,000 overseas every financial year for a permissible set of current or capital account transactions.

Permitted: Remittances are permitted for overseas education, travel, medical treatment and purchase of shares and property, apart from maintenance of relatives living abroad, gifting and donations. Individuals can also open, maintain and hold foreign currency accounts with overseas banks for carrying out transactions.

Not permitted: However, the rules do not allow remittances for trading on the foreign exchange markets, margin or margin calls to overseas exchanges and counterparties and the purchase of Foreign Currency Convertible Bonds issued by Indian companies abroad. Sending money to certain countries and entities is also barred. Under LRS, people can't send money to countries identified as 'non cooperative' by the Financial Action Task Force. Remittances are also prohibited to entities identified as posing terrorist risks.

Why is it important?

The LRS represents India's baby steps towards dismantling controls on foreign exchange movements in and out of the country. It has allowed large numbers of Indians to study abroad and diversify their portfolios from purely desi stocks and property.

Ideally speaking, capital controls in any form have no place in a liberalised economy. But for India, which is heavily dependent on imports of critical goods and perpetually spends more foreign exchange than it earns, it is difficult to free up remittances because of the havoc this can wreak on exchange rates.

What's important?

- For Prelims: Liberalised remittance scheme.
- For Mains: Need for control of foreign exchange movements.

To be looked in UPSC Paper 2 Topic: Indian diaspora.