Indian Economy · GS - III

Explain the significance of the Liberalised Remittance Scheme (LRS) in India's external sector. Discuss the possible implications of a proposed sub-limit on overseas investments and gifts.

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
10	~150 words

Answer Hint

LRS framework and objectives; foreign exchange management; overseas investment and gifts; capital outflows and monitoring; individual financial freedom; implementation safeguards

Model Answer

Introduction

The Liberalised Remittance Scheme (LRS), introduced by the Reserve Bank of India in 2004, permits eligible resident individuals to remit funds abroad for specified purposes. Its general annual limit is US$250,000 per individual, subject to applicable regulations.

Significance of LRS

LRS facilitates overseas education, medical treatment, travel, gifts and permitted investments. It provides individuals with greater access to international financial opportunities and supports economic integration.

Possible implications of the proposed sub-limit

A ₹50 lakh sub-limit for selected categories, as reported in the article, could help the RBI monitor particular capital outflows and improve foreign-exchange risk management. It may also discourage excessive speculative transfers.

However, additional restrictions could reduce flexibility for legitimate investors, families making overseas gifts and individuals diversifying their assets internationally. Clear definitions and predictable compliance requirements would therefore be essential.

Way Forward

The RBI should clearly specify the categories covered, exemptions, reporting requirements and implementation timeline. A proportionate, transparent framework should distinguish legitimate investment activity from transactions posing significant regulatory risks.

Conclusion

Effective LRS regulation requires balancing individual financial freedom with macroeconomic stability, transparency and prudent foreign-exchange management.