

A Review of Foreign Exchange Management Act 1999

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Abstract

The Foreign Exchange Management Act 1999 (FEMA) is a seminal piece of legislation in India that governs foreign exchange transactions and the management of foreign exchange reserves. It represents a crucial pivot in the country's economic policy, replacing the antiquated Foreign Exchange Regulation Act (FERA) of 1973 and aligning India with the global trend towards liberalization. FEMA embodies the principles of economic openness and facilitation of foreign investments, with keywords such as "foreign exchange," "current account transactions," and "capital account transactions" serving as its foundational elements. This legislation empowers the Reserve Bank of India (RBI) and the Central Government to regulate and oversee foreign exchange transactions, while also establishing a robust enforcement mechanism to address violations and contraventions. One of the essential aspects of FEMA is its adaptability. The legislation has undergone several amendments to keep pace with changing economic dynamics and global trends, demonstrating its flexibility in response to evolving conditions. This adaptability is vital for maintaining India's competitiveness on the international stage. RBI's role as the central authority and the concept of "authorized persons" - entities and individuals authorized to conduct foreign exchange transactions - are pivotal components of FEMA's implementation. These elements serve to streamline foreign exchange operations and ensure compliance with FEMA's regulations, facilitating a smoother flow of foreign investments and trade. Nevertheless, FEMA is not without its challenges. The act's stringent penalties and enforcement measures have drawn criticism for their potential to deter foreign investment. Maintaining a balance between compliance and investment promotion remains a continuous challenge.

Keywords: FEMA (Foreign Exchange Management Act), Foreign Exchange Regulations, RBI (Reserve Bank of India), Capital Account Transactions

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