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# UPDATE

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## RBI ANNOUNCES LIBERALISATIONS TO BRING BACK DOLLARS TO INDIA

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### Introduction

The Reserve Bank of India (**RBI**) has in an attempt to mitigate volatility and dampen global spillover, undertaken measures to enhance forex inflows while ensuring overall macroeconomic and financial stability.

To provide operational flexibility to multinational entities and in the face of the global recession risks and volatility, the RBI has, in its circular dated 7 July 2022 (**Circular**) provided for liberalisations of forex flows. The Circular draws reference to the Foreign Exchange Management (Debt Instruments) Regulations, 2019 and RBI circular on Investment by Foreign Portfolio Investors (FPI) in Debt dated 7 July 2022.

### Key Highlights

The External Commercial Borrowing (**ECB**) borrowings are also necessitated to be in conformity with various parameters, including the all-in cost ceiling, minimum maturity requirements and the overall dynamic ceiling.

RBI has however relaxed certain restrictions imposed over the borrowing from offshore lenders pursuant to the Circular for specified durations.

The key relaxations in the existing regime provided in the Circular are discussed below:

1. Foreign Portfolio Investors (**FPI**) Investments in Central Government securities (**G-Secs**) & Corporate Bonds

   The FPIs can invest in Government securities and corporate bonds through the Medium-Term Framework (**MTF**) (as introduced by RBI in October 2015), the Voluntary Retention Route (**VRR**) and the Fully Accessible Route (**FAR**) channels.

   (a) Existing position:

      I. G- Secs: In the extant regime, the short-term investments by an FPI in Government securities which includes G-Secs, treasury bills, State development loans, etc and corporate bonds shall not exceed 30% of the total investment of that FPI in any category. Further, as part of the macroprudential framework under the MTF, FPIs can invest only in corporate debt instruments with a residual maturity of at least 1(one) year.

II. Corporate bonds: In the extant regime, the FPI investments in corporate bonds were subject to a minimum residual maturity requirement of 1(one) year.

(b) Relaxation provided under the Circular:

Under the Circular, all the new issuances of the securities of the Central Government securities of 7-year and 14-year tenors, including the current issuances of 7.10% GS 2029 and 7.54% GS 2036, are to be classified as specified securities under the FAR, to *inter alia*, increase the choice of G-Secs available for investment.

Further, the FPI investments in G-Secs and corporate debt made until 31 October 2022 will be exempted from the macroprudential short-term limit of not more than 30% of investments each in government securities and corporate bonds. These investments will also not be reckoned for the short-term limit until maturity or sale of such investments.

(c) Timelines for relaxation:

FPI investments will be provided with a limited window until 31 October 2022 during which they can invest in corporate money market investments (commercial paper and non-convertible debentures) with an original maturity of up to 1(one) year. FPIs can continue to stay invested in these instruments until their maturity/sale. These investments will not be included for reckoning the short-term limit for investments in corporate securities.

2. ECB Relaxations:

(a) Existing position:

In relation to the raising of funds under the ECB mechanism, the companies are allowed to raise funds without prior permission from the RBI, subject to all-in cost ceiling, minimum maturity requirements and the overall dynamic ceiling which have to be adhered with for such ECB borrowings. The limit stipulated for such borrowing under the automatic route are USD 750 million or its equivalent per financial year.

(b) Relaxation provided under the Circular:

Subject to the negative list set out for ECBs), AD Category-I Banks (**AD Cat-I Banks**) can now utilise the Overseas Foreign Currency Borrowing (**OFCBs**) for lending in foreign currency to entities for a wider set of end-use purposesas opposed to the existing restriction on the use of OFCBs for lending in foreign currency except for the purpose of export finance. These exemption on such borrowings is permitted only up to 31 October 2022.

The Circular has increased the limit under the automatic route from USD 750 million or its equivalent per financial year to USD 1.5 billion. Subject to the borrower being of investment grade rating, the all-in cost ceiling under the ECB framework has also been raised by 100 basis points. The relaxations shall be available up to 31 December 2022.

The increase in the limit pursuant to the Circular has also been notified under the RBI circular dated 1 August 2022. The Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) Regulations, 2000 have also been amended pursuant to Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) (Amendment) Regulations, 2022 dated 28 July 2022, to capture the revision of the limit of USD 750 million or equivalent to USD 1500 million or equivalent, which dispensation shall be available up to 31 December 2022.

(c) Timelines for relaxation:

These exemption on the end-use purposes of the OFCBs is permitted only until 31 October 2022 while the revision of the limit under the ECBs of USD 750 million or equivalent to USD 1500 million or equivalent shall be available until 31 December 2022.

3. Foreign Currency Non-Resident (Bank) (**FCNR (B)**), Non-Resident (External) Rupee (**NRE**) & Net Demand and Time Liabilities (**NDTL**): Relaxations

(a) Existing position:

The current regime requires that the interest rates for NRE deposits shall not be higher than those offered by the banks on comparable domestic rupee term deposits while for the FCNR (B), the interest rates are subject to ceilings of Overnight Alternative Reference Rate (**ARR**) for the respective currency/swap (plus 150 basis point for deposits of 1(one) year to less than 3(three) years and 350 basis points for deposits of 3(three) years and above and up to 5(five) years maturity).

(b) Relaxation provided under the Circular:

The Circular exempts the incremental FCNR(B) and NRE deposit with the reference base date of 1 July 2022, for computation of NDTL for maintenance of Cash Reserve Ratio (**CRR**) and Statutory Liquidity Ratio (**SLR**). This exemption shall be applicable from the reporting fortnight beginning from 30 July 2022 and shall be available for deposits mobilized up to 4 November 2022.

However, the transfers from Non-Resident (Ordinary) (**NRO**) accounts to NRE accounts shall not be eligible for the relaxation provided under the Circular.

(c) Timelines for relaxation:

The regulator has with effect from 7 June 2022 to 31 October 2022 temporarily permitted the banks to raise fresh FCNR (B) and NRE Deposits without reference to the extant regulations.

**Comments**

The liberalisation of forex flows has come as a relief for entities undertaking foreign currency borrowings in the current global market conditions as the Circular not only relaxes the monetary restrictions, but also increases the scope of G-Secs covered under the FPIs.

However, these relaxations are time bound and will emulate the global economic scenario. This is a good pre-emptive step by the regulator and shall prevent a barrage of exemption applications from flooding in, given that the borrowers will be able to find forex investors only with better pricing. This step makes borrowing by the Indian entities from offshore lenders more lucrative for the foreign investors and such investor friendly measures should encourage increase in forex funding.

In the wake of increase in overseas investment and in order to maintain the country's current account deficit, this is an attempt by RBI to bring back foreign investments. It will have to be seen if these measures will give the requisite results keeping in mind the global economic environment.

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