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RBI ANNOUNCES VARIOUS MEASURES TO LIBERALISE FOREX FLOWS IN INDIA

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In the backdrop of the Indian Rupee (INR) continuously depreciating against the US dollar (USD), the Reserve Bank of India (RBI) on 6 July 2022, issued a press release on 'Liberalisation of Forex Flows (Revised)' (Press Release) and announced the following measures, *inter alia*, to augment the foreign exchange flows in India and to expand and diversify the source of forex funding:

- exemption for investments by foreign portfolio investors (FPI) in government securities and corporate debt from short-term investment limits;
- exemption to FPI's to invest in commercial papers and non-convertible debentures with an original maturity of up to one year;
- permission to AD Category I banks (AD Banks) to utilise funds raised from overseas foreign currency borrowings (OFCB) for onward lending in foreign currency India, subject to the end-use prescriptions stipulated in the RBI's 'Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations' dated 26 March 2019 (ECB Framework);
- the external commercial borrowing (ECB) limit under the automatic route for eligible borrowers to be raised from USD 750 million or its equivalent per financial year to USD 1.5 billion;
- the all-in-cost ceiling for ECBs to be raised by 100 basis points, subject to the borrower being of investment grade rating;
- exemption from Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) on incremental Foreign Currency Non-Resident (Bank) (FCNR(B)) and Non-Resident (External) Rupee deposits (NRE Deposits);
- permission to banks to raise fresh FCNR(B) and NRE Deposits without any ceiling on interest rates; and
- new issuances of G-Secs of 7-year and 14-year tenors, including the current issuances of 7.10% GS 2029 and 7.54% GS 2036 opened fully for non-resident investors without any restrictions under the 'Fully Accessible Route' for investment by non-residents in government securities.

Following the Press Release, the RBI has issued separate circulars to provide the further details on such measures except those relating to ECBs. In this Ergo, we will examine some of the key policy announcements taken by RBI.

FPI related relaxations

All short-term investments by an FPI in government securities, such as treasury bills, state development loans and corporate bonds, with minimum residual maturity of up to one year (Short Term Investments) were capped at 30% of the total investment by such FPI in any category (30% Limit). Pursuant to the Press Release, RBI issued A.P. (DIR Series) Circular No. 7 dated 7 July 2022 titled '*Investment by Foreign Portfolio Investors (FPI) in Debt - Relaxations*' (FPI Notification) and provided relaxations from the extant 30% Limit for any Short-Term Investments made between 8 July 2022 and 31 October 2022 (inclusive) (Investment Period) till maturity / sale of such investment.

Also, prior to the Press Release, FPIs were permitted to invest only in corporate bonds with minimum residual maturity of up to one year. The FPI Notification has relaxed the minimum residual maturity requirement of one year for investments by FPIs in commercial papers and non-convertible debentures during the Investment Period. Such investments shall also be exempted from 30% Limit.

ECB related relaxations

Under the extant ECB Framework, an eligible borrower entity is permitted to raise ECBs up to USD 750 million or equivalent in a financial year under the automatic route i.e. without the permission from the RBI. Pursuant to the Press Release, this limit of USD 750 million has been enhanced to USD 1.5 billion in a financial year.

In addition, the RBI has raised the all-in-cost ceiling prescribed under the ECB Framework by 100 bps for ECBs to be availed by eligible borrowers that are of investment grade i.e. any rating of BBB- and above. Prior to the Press Release, the all-in-cost ceiling for a foreign currency ECB was benchmark rate plus 500 bps point.

These relaxations are available to the eligible borrowers until 31 December 2021.

Relaxations for AD Banks

The RBI has by its circular dated 7 July 2022 titled '*Overseas foreign currency borrowings of Authorised Dealer Category-I banks*' (AD Bank Circular) granted dispensation to the AD Banks to utilise OFCBs raised in the Investment Period for lending in foreign currency to borrowers in India, subject to the end use restrictions laid down in the ECB Framework. Prior to the AD Bank Circular, OFCBs raised by AD Banks were restricted for lending in foreign currency to their constituents in India, except for the purpose of finance of export credit.

Other Measures

The RBI has also by its notification dated 7 July 2022 titled '*Fully Accessible Route for Investment by Non-residents in Government Securities - Additional Specified Securities*' widened the list of 'specified securities' for investments by non-residents, to include all new central government securities of 7 (seven) year and 14 (fourteen) year tenors including current issuances of '7.10% GS 2029' and '7.54% GS 2036'. Prior to this relaxation, the list of 'specified securities' only included central government securities with a 5 (five) year, 10 (ten) year and 30 (thirty) year tenors.

In addition to the above measures, RBI has also by its circular dated 6 July 2022 titled '*Section 42 of the Reserve Bank of India Act, 1934 and Section 18 and 24 of the Banking Regulation Act, 1949 - FCNR (B)/NRE Term deposits - Exemption from maintenance of CRR/SLR*' (CRR/SLR Notification) relaxed the requirement of calculation of

incremental FCNR(B) and NRE deposits mobilised by the banks from 1 July 2022 until 4 November 2022 towards NDTL computation for cash reserve ratio and statutory liquidity ratio maintenance. This relaxation excludes any transfers from Non-Resident (Ordinary) accounts (NRO Accounts) to NRE deposit even if made during the period of 1 July 2022 until 4 November 2022.

The RBI has also by the '*Master Direction on Interest Rate on Deposits - Foreign Currency (Non-resident) Accounts (Banks) Scheme (FCNR(B)) and Non-Resident (External) Rupee (NRE) Deposit*' dated 6 July 2022 granted relaxations to banks from the interest ceiling applicable on FCNR(B) and NRE deposits with effect from 7 July 2022 until 31 October 2022. It has been clarified that the said relaxations shall not apply to ordinary non-resident (NRO) deposits.

Conclusion

The measures announced by the RBI is part of the initiatives taken by it to control the continuous fall in INR against the USD and to supplement the foreign exchange reserves with the intent of ensuring overall macroeconomic and financial stability. The relaxations provided to FPIs for their investments in government securities and corporate bonds is aimed to incentivise the FPIs to invest in low-risk instruments for shorter tenures that will mitigate the recent exodus of FPI investment from India. The permission to AD Banks to utilise OFCB for onward lending for wider purposes and the increase in all-in-cost ceiling and limits under automatic route is aimed to increase forex inflow in India. However, while the increase in all-in-cost benefit and borrowing limits for the ECBs is a welcome move, it remains to be seen if the Indian corporates find ECBs attractive considering the downward pressure on INR. Nevertheless, on an overall basis, given the slowdown in foreign investments in India, these measures are expected to provide much needed boost to increase foreign exchange in India.

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