

## ERGO

*Analysing developments impacting business*

EXTERNAL  
LIBERALISED

COMMERCIAL

BORROWING

NORMS

10 August 2022

The Reserve Bank of India (RBI), on 6 July 2022, issued a press release on liberalisation of forex flows and announced a slew of measures to increase foreign exchange inflows into India. Following such press release, the RBI on 1 August 2022 issued a circular (A.P (DIR Series) Circular No. 11) (2022 ECB Circular), under which it has made certain temporary modifications to the existing regime on external commercial borrowings (ECBs) and such regulatory relaxations would be available for ECBs availed till 31 December 2022.

### **Enhancement of Borrowing Limit**

Under the extant regime on ECBs, eligible borrowers could avail ECBs up to USD 750 million or equivalent in a financial year, under the automatic route. Through the 2022 ECB Circular, RBI has doubled the borrowing limit for ECBs availed under the automatic route to USD 1.5 billion or equivalent, from the previous limit of USD 750 million.

### **Increase in All-in-cost Ceiling**

The RBI, under the 2022 ECB Circular, has enhanced the all-in-cost ceiling for ECBs availed till 31 December 2022. Under the extant regulations, the all-in-cost ceiling for new foreign currency (FCY) ECBs was Benchmark + 500 basis points and that for Indian Rupee (INR) denominated ECBs, the same stood at Benchmark + 450 basis points. As per the 2022 ECB Circular, the applicable all-in-cost ceiling for all eligible borrowers has been raised by 100 basis points, in respect of both FCY denominated ECBs as well as INR denominated ECBs. This temporary increment in the all-in-cost ceiling is subject to the eligible borrowers having investment grade rating qualifications, i.e. any rating of BBB- and above, as provided by the Indian credit rating agencies.

### **Conclusion:**

Through the above measures, RBI has, amid the depreciating value of the Indian Rupee, attempted to liberalise the regulatory regime relating to ECBs such that it results in enhancement of forex inflows into the country. It remains to be seen whether such dispensations would create an attractive opportunity for lenders in the overseas market to participate in lending to Indian borrowers. Further, while there has been liberalisation in the borrowing limits and all-in-cost ceiling for eligible borrowers under the 2022 ECB Circular, it must be noted that the special dispensations provided by RBI to certain

categories of borrowers such as oil marketing companies and start-ups continue to apply as per the extant regulations on ECBs.

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