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RBI EASES NORMS FOR EXTERNAL COMMERCIAL BORROWING

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

In a bid to improve ease of doing business, the Reserve Bank of India has decided to liberalise external commercial borrowing (ECB) norms, allowing all companies that are eligible for receiving foreign direct investment, to raise funds through the ECB route.

“The list of eligible borrowers has been expanded. All entities eligible to receive foreign direct investment can borrow under the ECB framework,” the central bank said in a statement on Wednesday. The new framework takes immediate effect.

“It has now been decided, in consultation with the Government of India, to rationalise the extant framework for ECB and Rupee denominated bonds to further improve the ease of doing business,” the RBI said.

3-year maturity

The RBI has decided to keep the minimum average maturity period at 3 years for all ECBs, irrespective of the amount of borrowing, except for borrowers specifically permitted to borrow for a shorter period. Earlier, the minimum average maturity period was five years. The ceiling for borrowing remains at $750 million.

“All eligible borrowers can now raise ECBs up to $750 million or equivalent per financial year under the automatic route replacing the existing sector-wise limits,” RBI said.

Any entity who is a resident of a country which is financial action task force compliant, will be treated as a recognised lender. “This change increases lending options and allows various new lenders in ECB space while strengthening the [anti money laundering / combating the financing of terrorism] framework,” it said.

RBI had capped funds raised via ECBs at 6.5% of GDP, at current market prices. Based on GDP figures for March 31, 2018, ‘the soft limit works out to $160 billion,’ RBI had said.

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