

RBI EASES ECB HEDGING NORMS FOR COMPANIES

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The Reserve Bank of India (RBI) has eased hedging norms for companies that raise funds through external commercial borrowings (ECB), a move that will lower the cost of hedging.

A notification issued by the central bank said mandatory hedge coverage has been reduced from 100% to 70% under Track I of the ECB framework.

Roll-over

The RBI also clarified that the ECBs raised prior to this circular would be required to mandatorily roll over their existing hedge only to the extent of 70% of outstanding ECB exposure.

According to the RBI, Track I refers to medium-term foreign currency-denominated ECBs with a minimum average maturity of 3-5 years. The move will help reduce costs for companies that raise foreign funds.

“The cost of hedging has gone up in the last six months with the strengthening of the dollar. As a result, the ECB route was becoming unattractive to firms,” said a banker.

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