

Corporates can borrow up to US\$ 50 million overseas

FII limit in g-secs, corporate debt raised

New Delhi: With pressures of excessive foreign exchange inflows receding, the Centre has relaxed external commercial borrowing (ECB) norms for companies, besides hiking foreign institutional investors' (FII) exposure limits in Government securities and corporate bonds.

Companies can now undertake borrowings of up to \$50 million for incurring rupee expenditure for permissible end uses under the Reserve Bank of India's Approval Route. In the case of borrowers in the infrastructure sector, the limit has been fixed even higher at \$100 million.

Currently, borrowers could avail themselves of ECB of only up to \$20 million for rupee expenditure for permissible end-uses requiring prior approval from the RBI.

In other words, not only has the ECB limit been hiked from \$20 million to \$50 million, but a separate higher limit of \$100 million has been created for companies in the infrastructure sector.

Simultaneously, the Centre has relaxed the all-in-cost ceilings for ECBs which applies to borrowings both under the Approval as well as Automatic routes.

For borrowings with average maturity of 3-5 years, the all-in-cost ceiling over six-month Libor has been raised from 150 basis points to 200 basis points. In the case ECBs above 5 year tenor, the same has been increased from 250 to 350 basis points.

The Centre also enhanced the FII investment limits in Government Securities from \$3.2 billion to \$5 billion and for corporate bonds, from \$1.5 billion to \$3 billion.

Impact of curbs

The Government had in August 2007 imposed curbs on use of ECB monies for undertaking rupee expenditures in view of the surge in capital inflows, leading to strengthening of the rupee and excess domestic money supply.

Corporates borrowing more than \$20 million were made to retain the proceeds abroad or use them solely for imports and other foreign currency expenditures.

But now, the situation has changed to permit relaxation of ECB norms

During 2007-08, the RBI's foreign currency assets rose by \$107.31 billion, whereas they have gone up by only \$4.89 billion in the current fiscal as on May 16.

Also, unlike last year, the rupee has in recent weeks depreciated against the dollar, which means there is less case for discouraging capital inflows, officials said.

All other aspects of ECB policy such as \$500 million limit per company per year under the Automatic Route, eligible borrower, recognised lender, end-use of foreign currency expenditure for import of capital goods and overseas investments, average maturity period, and reporting arrangements remained unchanged.

Source: The Hindu Business Line, 29/05/2008