

# **Measures to Boost Forex Inflows**

For Prelims: Forex, CRR, SLR, ECB, RBI

For Mains: Measures to Boost Forex Inflows

## Why in News?

Recently, <u>Reserve Bank of India (RBI)</u> has undertaken measures **to enhance** <u>forex</u> **inflows**, amid <u>Depreciation</u> of Indian rupee.

# Why has the RBI taken Measures to Boost Forex?

- The rupee has depreciated by 4.1 % against the US dollar during the current financial year (2022-23) so far amid the ongoing geopolitical tensions.
  - Indian Rupee has depreciated 4.1 % to 79.30 against the US dollar in the current financial year (FY 2022-23).
- Foreign Portfolio Investors (FPIs) have pulled out Rs 2.32 lakh crore in six months.
- India's forex reserves, over the last 9 months, have decreased by USD 50 billion to USD 593.3 billion.

#### What is a Forex Reserve?

- About:
  - Foreign exchange reserves are assets held on reserve by a central bank in foreign currencies, which can include bonds, treasury bills and other government securities.
  - Most foreign exchange reserves are held in US dollars.
- Components:
  - Foreign Currency Assets
  - Gold reserves
  - Special Drawing Rights
  - Reserve Tranche Position with the International Monetary Fund (IMF).

#### What are the Measures?

- FPI Investment in Debt:
  - Foreign Portfolio Investors (FPIs) can invest in government securities and corporate bonds.
  - It has also sought to boost debt portfolio inflows by widening the basket of securities available to FPIs.
    - FPI is a route for foreign investment in India. It includes <u>investments in shares</u> of listed Indian Company, Non-Convertible <u>Debentures</u>, units of domestic <u>MF</u> (<u>Mutual Fund</u>), <u>Government Securities</u>, Security Receipts, etc.
- Higher Returns:
  - The RBI has allowed banks to give higher returns on foreign currency deposits on which

### they will not have to maintain any reserves.

• Interest rates should not be higher than those offered by the banks on comparable domestic rupee term deposits.

#### Relaxation Under ECBs:

- Rules governing <u>External Commercial Borrowing (ECB)</u> for corporates have been relaxed, with the automatic route being doubled to USD 1.5 billion and the cap on borrowing costs raised by 1% point.
  - ECBs are loans in India made by non-resident lenders in foreign currency to Indian borrowers. Used to facilitate access to foreign money by Indian corporations and PSUs (public sector undertakings).

#### Export Taxes:

• The Union government has also increased export taxes on oil and petroleum products and import duty on gold, to control the widening Current Account Deficit.

#### Exemption on FCNR(B) and NRE Deposits:

- Non-Resident Indians (NRIs) will get high returns for bringing foreign exchange into India into FCNR(B), and NRE deposits as the cap on rates has been removed for fresh deposits.
  - FCNR(B) are foreign currency non-resident deposits (denominated in foreign currency), while NRE deposits are non-resident external deposits.

## What is External Commercial Borrowings?

#### About:

- ECBs is a loan availed by an Indian entity from a non-resident lender with a minimum average maturity.
- Most of these loans are provided by foreign commercial banks buyers' credit, suppliers' credit, securitized instruments such as Floating Rate Notes and Fixed Rate Bonds etc.

### Advantages:

- ECBs provide opportunity to borrow large volume of funds.
- The funds are available for relatively long term.
- Interest rate are also lower compared to domestic funds.
- ECBs are in the form of foreign currencies. Hence, they enable the corporate to have foreign currency to meet the import of machineries etc.

**Source: IE** 

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