RBI Eases External Commercial Borrowing Framework

The Reserve Bank of India has drawn up a **new external commercial borrowing (ECB) framework** in order to further **improve the ease of doing business in India.**

The new framework will come into effect immediately.

External Commercial Borrowings

- External Commercial Borrowings is a **loan availed by an Indian entity** from a nonresident 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 of ECBs:
  - 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.
  - Corporate can raise ECBs from internationally recognized sources such as banks, export credit agencies, international capital markets etc.

New Framework

- The **RBI kept the borrowing limit under the automatic route** unchanged at $750 million per financial year but replaced the sector-wise limits.
- RBI has **expanded the definition of beneficiaries eligible** for external commercial borrowings to include all entities that can receive foreign direct investment. Among those now eligible are: port trusts, units in special economic zones, microlenders, not-for-profit companies, registered societies/trusts/cooperatives and non-government organisations.
- The Export-Import Bank (EXIM) and the Small Industries Development Bank of India

(SIDBI) has been allowed to borrow overseas from recognised lenders.

- The previous four-tier structure has been replaced by **two specific channels: dollar- and rupee-denominated ECBs.**
  - Earlier, there was a distinction between foreign currency ECBs based on maturity. One was maturity period of three to five years and the other of 10 years. Both have been subsumed into foreign currency-denominated ECBs.
  - Indian rupee-denominated overseas borrowings with similar sets of maturities have also been combined into a single rupee- denominated ECBs.
- To curb volatility in the forex market arising out of dollar demand for crude oil purchases, the framework provides a **special dispensation to public sector oil marketing companies.**

  It allows them to raise ECB, with an overall ceiling of $10 billion, for working capital purposes with a minimum average maturity period (MAMP) of three years under the automatic route without mandatory hedging and individual limit requirements.
- 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,** like manufacturing companies.
  - Earlier, the minimum average maturity period was five years.
  - Further, if the ECB is raised from a foreign equity holder and **utilised for working capital, general corporate purposes or repayment of rupee loans, the maturity period will be five years.**
- 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.
- The **negative list,** for which the ECB proceeds cannot be utilised, would include **real estate activities, investment in capital market, equity investment, working capital purposes (except from foreign equity holder), repayment of Rupee loans (except from foreign equity holder).**
- Earlier in November, 2018 RBI also eased Hedging Norms for External Commercial Borrowings to make the ECB route attractive to firms.