

Corpsec Hotline

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FOREIGN BORROWING NORMS LIBERALIZED

The Ministry of Finance ("MoF"), which had tightened the External Commercial Borrowings ("ECBs") in the month of November 2003, has sought to liberalize the foreign borrowing norms vide a press release, dated January 19, 2004.

Provided below are the salient features of the revised guidelines:

- **End Use:** The restrictions on end-use have been significantly relaxed whereby, ECBs are now allowed for corporate investments in the industrial sector, especially in connection with infrastructure projects. The only restrictions that continue are on investment in the capital markets and real estate.
- **Parking Funds Abroad:** Indian borrowers are required to bring such borrowings into the country only at the time of actual utilization of the funds.
- **Eligibility:** Financial intermediaries like banks, financial institutions and non-banking financial institutions are restricted from accessing ECBs or providing guarantees, letter of comfort, etc. for such loans. However, banks and financial institutions are permitted to make such borrowings in connection with textile and steel restructuring projects to the extent of their investment in the package.
- **Automatic Route:** ECBs of up to USD 20 million with an average maturity between 3-5 years, and ECBs up to USD 500 million with an average maturity of more than 5 years will be eligible for approval under the automatic route.
- **Maximum Spread:** The borrowings are subject to the following maximum spreads over the six month LIBOR:
 - ECBs with an average maturity of 3-5 years: 200 basis points
 - ECB's with an average maturity of over 5 years: 350 basis points

- **Non-Automatic Route:** An Empowered Committee of the RBI will now decide all cases not falling under the automatic route.

The MoF has indicated that the above mentioned norms will also apply to foreign currency convertible bonds issued by Indian borrowers. The above amendments to the ECB guidelines will come into force from the date of issue of notification of regulations/directions.

Source: Ministry of Finance

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