

Foreign Exchange Developments

March 2010

i) External Commercial Borrowings (ECB) Policy

As per the extant ECB policy, infrastructure sector was defined as (i) power, (ii) telecommunication, (iii) railways, (iv) road including bridges, (v) sea port and airport, (vi) industrial parks, (vii) urban infrastructure (water supply, sanitation and sewage projects) and (viii) mining, exploration and refining.

As announced in para 54 of the Union Budget for the Year 2010-11, it was decided to expand the definition of infrastructure sector, for the purpose of availing of ECB, to include "cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat". Accordingly, the infrastructure sector would henceforth be defined to include (i) power, (ii) telecommunication, (iii) railways, (iv) road including bridges, (v) sea port and airport, (vi) industrial parks, (vii) urban infrastructure (water supply, sanitation and sewage projects), (viii) mining, exploration and refining and (ix) cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat.

[A.P. (DIR Series) Circular No.38
dated March 2, 2010]

ii) External Commercial Borrowings (ECB) Policy

As per the extant ECB policy, Non-Banking Finance Companies (NBFCs), which are exclusively engaged in financing of infrastructure sector, were permitted to avail of ECB from the recognised lender

category including international banks, under the approval route, for on-lending to the infrastructure sector, as defined in the extant ECB policy.

In view of the thrust given to the development of the infrastructure sector, a separate category of Non Banking Finance Companies (NBFC) *viz.* Infrastructure Finance Companies (IFCs) has been introduced in terms of the guidelines contained in circular DNBS.PD.CC No. 168/03.02.089/2009-10 dated February 12, 2010. In view of the new category of NBFCs being in place, the dispensation as above is not considered necessary. Accordingly, proposals for ECBs by the IFCs, which have been classified as such by the Reserve Bank, for on-lending to the infrastructure sector, as defined in the extant ECB policy may be considered under the approval route, subject to certain conditions.

[A.P. (DIR Series) Circular No.39
dated March 2, 2010]

iii) External Commercial Borrowings (ECB) Policy – Structured Obligations

As per the extant policy, domestic Rupee denominated structured obligations have been permitted to be credit enhanced by non-resident entities under the approval route. In view of the growing needs of funds in the infrastructure sector, the existing norms were reviewed and it was decided to put in place a comprehensive policy framework on credit enhancement to domestic debt.

It has since been decided that the facility of credit enhancement by eligible non-resident entities may be extended to domestic debt raised through issue of capital market

instruments, such as debentures and bonds, by Indian companies engaged exclusively in the development of infrastructure and by the Infrastructure Finance Companies (IFCs), which have been classified as such by the Reserve Bank in terms of the guidelines contained in the circular DNBS.PD. CC No. 168 / 03.02.089 / 2009-10 dated February 12, 2010, subject to the certain conditions.

[A.P. (DIR Series) Circular No.40
dated March 2, 2010]

iv) Exim Bank's Line of Credit of USD 15 million to the Government of the Republic of Benin

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated October 19, 2009 with the Government of the Republic of Benin making available to the latter, a Line of Credit (LoC) of USD 15 million (USD Fifteen million) for financing eligible goods, machinery, equipment and services including consultancy services from India for the purpose of (a) purchase of railway equipment, (b) purchase of agricultural equipment and (c) conducting feasibility study for setting up a cyber city in Benin.

The Credit Agreement under the LoC is effective from February 16, 2010 and date of execution of Agreement is October 19, 2009. Under the LoC, the last date for opening of Letters of Credit and Disbursement will be 48 months from the scheduled completion date(s) of contract(s) in case of project exports and 72 months (October 18, 2015) from the execution date of the Credit Agreement in case of supply contracts.

[A.P. (DIR Series) Circular No.41
dated March 5, 2010]

v) Exim Bank's Line of Credit of USD 50 million to the Government of the Republic of Zambia

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated January 6, 2010 with the Government of the Republic of Zambia making available to the latter, a Line of Credit (LoC) of USD 50 million (USD fifty million) for financing eligible goods and services including consultancy services from India for Itezhi-Tezhi hydro power project in Zambia.

The Credit Agreement under the LoC is effective from March 4, 2010 and date of execution of Agreement is January 6, 2010. Under the LoC, the last date for opening of Letters of Credit and Disbursement will be 48 months from the scheduled completion date(s) of contract(s) in case of project exports and 72 months (January 5, 2016) from the execution date of the Credit Agreement in case of supply contracts.

[A.P. (DIR Series) Circular No.42
dated March 25, 2010]

vi) Deferred Payment Protocols dated April 30, 1981 and December 23, 1985 between Government of India and erstwhile USSR

In terms of A.P. (DIR Series) Circular No.3 dated July 17, 2009 the Rupee value of the special currency basket was indicated as Rs.66.5719 effective from June 25, 2009.

A further revision has taken place on January 06, 2010 and accordingly, the Rupee value of the special currency basket has

been fixed at Rs.65.29 with effect from January 11, 2010.

[A.P. (DIR Series) Circular No.43
dated March 29, 2010]

vii) Buyback / Prepayment of Foreign Currency Convertible Bonds (FCCBs)

In terms of A.P. (DIR Series) Circular No. 58 dated March 13, 2009, Indian companies were allowed to buyback their Foreign Currency Convertible Bonds (FCCBs) both under the automatic route and approval route until December 31, 2009. The Scheme was discontinued with effect from January 1, 2010.

In view of the representations made by the issuers of FCCBs, it has been decided to consider applications, under the approval route, for buyback of FCCBs until June 30, 2010, subject to issuers complying with all the terms and conditions of buyback/prepayment of FCCBs, as mentioned in A.P. (DIR Series) Circular No.39 dated December 08, 2008 and A.P. (DIR Series) Circular No.65 dated April 28, 2009. Accordingly, applications complying with the conditions may be submitted, together with the supporting documents, through the designated AD Category - I bank to the Chief General Manager-in-Charge, Reserve Bank of India, Foreign Exchange Department, External Commercial Borrowings Division, Central Office, 11th Floor, Central Office Building, Shahid Bhagat Singh Road, Mumbai-400 001.

[A.P. (DIR Series) Circular No.44
dated March 29, 2010]