Foreign Exchange Developments

September 2007

(i) Exim Bank's Line of Credit (LOC) of USD 30 million to Government of the Republic of Honduras

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated August 17, 2006 with the Government of the Republic of Honduras, making available to the latter, a Line of Credit (LOC) of USD 30 million (USD Thirty million) for financing exports of eligible goods and services in terms of the said Agreement relating to projects for communication, medical and transportation equipments (including vehicles, trucks, etc.), which are eligible for export under the Foreign Trade Policy of the Government of India. Out of the total credit by Exim Bank under this Agreement, at least 85 per cent of the goods and services shall be supplied by the seller from India or be of Indian origin.

[A.P. (DIR Series) Circular No.08 dated September 21, 2007]

(ii) Liberalised Remittance Scheme for Resident Individuals-Enhancement of limit from USD 100,000 to USD 200,000

The existing limit of USD 100,000 per financial year for remittances under the Liberalised Remittance Scheme for Resident Individuals was enhanced to USD 2,00,000 per financial year, for any permissible current account or capital account transaction or a combination of both.

[A.P. (DIR Series) Circular No. 09 dated September 26, 2007]

(iii) Prepayment of External Commercial Borrowings

With a view to providing greater flexibility to the corporates in managing their liquidity and interest costs dynamically, the existing limit for prepayment of ECB was enhanced from USD 400 million to USD 500 million, subject to compliance with the minimum average maturity period as applicable to the loan.

[A.P. (DIR Series) Circular No. 10 dated September 26, 2007]

(iv) Overseas Direct Investment-Liberalisation

a) Enhancement of limit for Overseas Direct Investment

With a view to provide greater flexibility to Indian parties for investments abroad, the existing limit of 300 per cent of the net worth of the Indian party (200 per cent in case of registered partnership firms) was enhanced to 400 per cent of the net worth of the Indian party, as on the date of the last audited balance sheet.

b) Portfolio Investment by Listed Indian Companies

In order to provide greater opportunities to listed Indian companies for portfolio investments, the existing limit of 35 per cent has been enhanced to 50 per cent of the net worth of the investing company as on the date of its last audited balance sheet. Further, the requirement of a reciprocal 10 per cent share holding in Indian companies has been dispensed with. Accordingly, listed Indian companies are now permitted to invest up to 50 per cent of their net worth as on the date of its last audited balance sheet, in (i) shares and, (ii) rated bonds / fixed income securities, rated not below investment grade by accredited/registered credit rating agencies, issued by listed overseas companies.

[A.P. (DIR Series) Circular No. 11 dated September 26, 2007]

(v) Overseas Investment by Mutual Funds - Liberalisation

a) Enhancement of the Aggregate Ceiling

The aggregate ceiling for overseas investment by Mutual Funds, registered with SEBI, was enhanced from USD 4 billion to USD 5 billion. The existing facility to allow a limited number of qualified Indian Mutual Funds to invest cumulatively up to USD 1 billion in overseas Exchange Traded Funds, as may be permitted by the SEBI, would continue.

b) Further Avenues for Overseas Investment

Mutual Funds, registered with SEBI were permitted to invest in ADRs / GDRs of Indian and foreign companies, rated debt instruments not below investment grade by accredited/registered credit rating agencies, in the equity of overseas companies listed on a recognized stock exchange overseas, in overseas mutual funds that make nominal investments (say to the extent of 10 per cent of net asset value) in unlisted overseas securities, and overseas exchange traded funds that invest in securities. In order to enable the Mutual Funds to tap a larger investible stock overseas, it has been decided to allow Mutual Funds also to invest in additional instruments, subject to the guidelines issued by SEBI.

[A.P. (DIR Series) Circular No. 12 dated September 26, 2007]