

Foreign Exchange Developments

October 2008

(i) External Commercial Borrowings (ECB) Policy - Liberalisation

On a review of ECB policy and to promote development of mining, exploration and refinery sectors in the country, the definition of infrastructure for the purpose of availing ECB has been expanded to include mining, exploration and refining. Accordingly, the infrastructure sector henceforth is 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.

[A.P. (DIR Series) Circular No.20
dated October 8, 2008]

(ii) Exim Bank's Line of Credit of USD 64.07 million to Myanmar Foreign Trade Bank, Myanmar

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated June 24, 2008 with the Myanmar Foreign Trade Bank, Myanmar, making available to the latter, a Line of Credit (LOC) of USD 64.07 million (USD sixty four million seventy thousand) for financing eligible goods and services, including consultancy services from India relating to financing of three transmission lines, *viz.*, Thahtay Chaung - Oakshitpin 230 KV; Thahtay Chaung - Thandwe-Maei -Ann 230 KV and Thandwe-Athoke 230 KV to be

executed by Power Grid Corporation of India in Myanmar.

[A.P. (DIR Series) Circular No.21
dated October 14, 2008]

(iii) Exim Bank's Line of Credit of USD 20 million to Myanma Foreign Trade Bank, Myanmar

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated June 24, 2008 with the Myanma Foreign Trade Bank, Myanmar, making available to the latter, a Line of Credit (LOC) of USD 20 million (USD twenty million) for financing eligible goods and services, including consultancy services from India relating to setting up of an Aluminum Conductor Steel Reinforced (ACSR) wire manufacturing factory, with total annual output capacity of ACSR 10,000 tonnes and galvanized iron wire 4000 tones in the Myanmar.

[A.P. (DIR Series) Circular No.22
dated October 14, 2008]

(iv) Overseas Foreign Currency Borrowings by AD Banks - Enhancement of limit

With a view to providing greater flexibility to AD Category-I banks in seeking access to overseas funds, AD Category-I banks have been permitted to borrow funds from their Head Office, overseas branches and correspondents and overdrafts in Nostro accounts up to a limit of 50 per cent of their unimpaired Tier-I capital as at the close of the previous quarter or USD 10

million (or its equivalent), whichever is higher, as against the existing limit of 25 per cent (excluding borrowings for financing of export credit in foreign currency and capital instruments).

[A.P. (DIR Series) Circular No.23
dated October 15, 2008]

(v) Allocation of FII investment between debt and equity

In order to accord flexibility to the FIIs to allocate their investments across equity and debt instruments, the Securities and Exchange Board of India (SEBI), in consultation with the Government of India, *vide* its Circular No.IMD/FII & C/33/2007 dated October 16, 2008 has dispensed with the conditions provided in Regulation 15(2) of the SEBI FII Regulations pertaining to restrictions of 70:30 ratio of investments in equity and debt, respectively. Accordingly, FEMA Regulations have been amended. The existing stipulations in respect of FII holdings in security receipts issued by Asset Reconstruction Companies continue.

[A.P. (DIR Series) Circular No.25
dated October 17, 2008]

(vi) External Commercial Borrowings (ECB) Policy - Liberalisation

Based on a review, ECB policy has been modified as under :

- i) ECB up to USD 500 million per borrower per financial year has been permitted for rupee expenditure and/

or foreign currency expenditure for permissible end-uses under the Automatic Route. The requirement of minimum maturity period of seven years for ECB more than USD 100 million for Rupee capital expenditure by the borrowers in the infrastructure sector has been dispensed with.

- ii) In order to further develop the telecom sector in the country, payment for obtaining license/permit for 3G Spectrum will be considered an eligible end-use for the purpose of ECB.
- iii) ECB proceeds were required to be parked overseas until actual requirement in India and such proceeds could be invested in specified liquid assets. Henceforth, borrowers have been granted flexibility to either keep these funds off-shore or keep it with the overseas branches / subsidiaries of Indian banks abroad or to remit these funds to India for credit to their Rupee accounts with AD Category-I banks in India, pending utilisation for permissible end-uses. However, as hitherto, the rupee funds will not be permitted to be used for investment in capital markets, real estate or for inter-corporate lending.

iv) In view of the tight liquidity conditions in the International financial markets, the All-in-cost ceilings have been rationalised and enhanced as under :

Average Maturity Period	All-in-cost ceilings over 6 Months LIBOR	
	Existing	Revised
Three years and up to five years	200 bps	300 bps
More than five years and up to seven years	350 bps	
More than seven years	450 bps	500 bps

[A.P. (DIR Series) Circular No.26 dated October 22, 2008]

(vii) Trade Credits for imports into India - Review of all-in-cost ceilings

As the domestic importers are experiencing difficulties in raising trade credits within the existing all-in-cost ceilings in view of the tight liquidity conditions in the international financial markets, an enhancement of the all-in-cost ceiling for trade credit was announced in Mid-term review of Annual Policy Statement for the year 2008-09 (para 147). Accordingly, the revised all-in-cost ceiling for Trade Credits is as under :

Maturity Period	All-in-cost ceilings over 6 Months LIBOR	
	Existing	Revised
Up to one year	75 bps	200 bps
More than one year up to three years	125 bps	

[A.P. (DIR Series) Circular No.27 dated October 27, 2008]