

**October 22 , 2008.**

To

All Category-I Authorised Dealer Banks

Madam / Sirs,

**External Commercial Borrowings Policy: Liberalisation**

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to the A. P. (DIR Series) Circular No.5 dated August 1, 2005, A. P. (DIR Series) Circular No. 60 dated May 21, 2007, A. P. (DIR Series) Circular No. 4 dated August 7, 2007 and A. P. (DIR Series) Circular No. 43 dated May 29, 2008, A.P.(DIR Series) Circular No. 16 dated September 22, 2008 and A.P. (DIR Series) Circular No. 20 dated October 8, 2008 relating to External Commercial Borrowings (ECB).

2. Based on a review, it has been decided to modify some aspects of the ECB policy as indicated below:

3. Henceforth, ECB up to USD 500 million per borrower per financial year would be permitted for Rupee expenditure and / or foreign currency expenditure for permissible end - uses under the Automatic Route. Accordingly, the requirement of minimum average 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.

4. 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.

5. At present, ECB proceeds are required to be parked overseas until actual requirement in India and such proceeds can be invested in the following liquid assets (a) deposits or certificate of deposit offered by banks rated not less than AA (-) by Standard and Poor / Fitch IBCA or Aa3 by Moody's; (b) deposits with overseas branch of an AD bank in India; and (c) Treasury bills and other monetary instruments of one year maturity having minimum rating as indicated above. It has now been decided that henceforth the borrowers will be extended the flexibility to either keep these funds off-shore as above 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.

6. In view of the tight liquidity conditions in the International financial markets, it has been decided to rationalize and enhance the all-in-cost ceilings 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	500 bps
More than seven years	450 bps	

\* for the respective currency of borrowing or applicable benchmark.

The all-in-cost ceilings will be reviewed from time to time depending on the conditions in the international financial markets.

7. Keeping in view the risks associated with unhedged foreign exchange exposures of SMEs, a system of monitoring such unhedged exposures by the banks on a regular basis is being put in place.

8. The amendments to the ECB guidelines will come into force with immediate effect. All other aspects of ECB policy such as USD 500 million limit per company per financial year under the Automatic Route, eligible borrower, recognised lender, end-use, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged.

9. Necessary amendments to the Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) Regulations, 2000 dated May 3, 2000 are being issued separately.

10. AD Category-I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

11. The directions contained in this circular have been issued under sections 10(4) and 11 (1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

**(Salim Gangadharan)**  
Chief General Manager-in-Charge