Corpsec Hotline

November 13, 2003

FOREIGN BORROWING NORMS TIGHTENED

The Ministry of Finance ("**MoF**") has revised its policy on External Commercial Borrowings ('**ECBs**') on Wednesday, November 12, 2003. The MoF has stated in several press reports that the rationale for the changes is to encourage domestic borrowings. This hotline is based on a press report and we are awaiting a copy of the notification in this regard.

Provided below are some of the salient changes introduced through the revised policy:

- Indian companies are now permitted to access external commercial borrowings of over USD 50 million only for end uses relating to financing import of capital equipment and for the foreign exchange needs of infrastructure projects. Previously, although ECBs above USD 50 million (and upto USD 100 million) required the prior approval of the Reserve Bank of India ("**RBI**"), there were no restrictions on the end uses except for a bar on using the funds for investment in real estate and stock markets.

- Financial intermediaries like banks, financial institutions and non-banking financial institutions are now restricted from accessing ECBs or providing guarantees for such loans with the exception of certain borrowings in connection with textile and steel restructuring projects.

- It is now mandatory for Indian borrowers to hedge their exposure for ECBs raised for the purposes of meeting rupee expenditure. However there are certain categories of borrowers who have been exempted from this requirement including exporters who have foreign exchange earnings.

- Indian borrowers are also required to bring in the borrowings into the country only at time of actual utilization of the funds.

Other modifications introduced by the MoF include pricing of borrowings by lowering of maximum spreads over the six month LIBOR which varies depending on the nature of the project.

Source: Economic Times, November 13, 2003

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