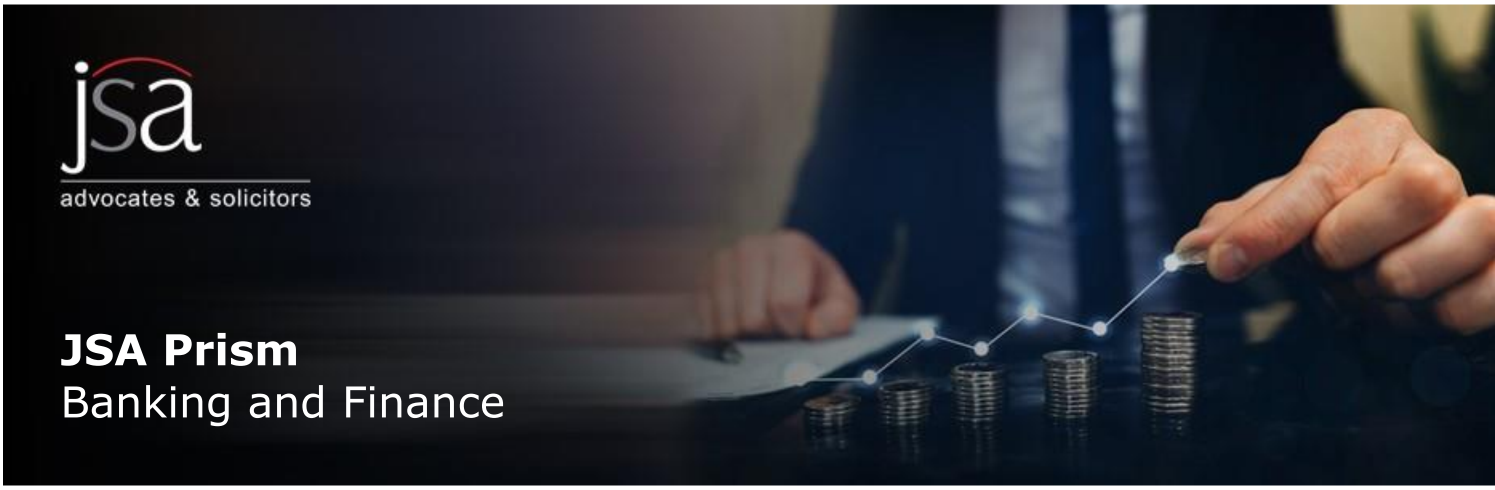

July 2022

RBI'S measures for boosting foreign currency inflow

In wake of the global recession and rising INR to USD exchange rates, the Reserve Bank of India ("**RBI**") has announced certain temporary and transitory measures to liberalise and boost the inflow of foreign currencies into India. These measures aim to diversify and expand the sources of foreign exchange funding so as to mitigate volatility and dampen global spill overs, while keeping in mind India's macroeconomic and financial stability.

These measures include the following:

1. **Exemption from cash reserve ratio ("CRR") and statutory liquidity ratio ("SLR") on incremental foreign currency non-resident (bank) ("FCNR(B)") and non-resident (external) rupee ("NRE") term deposits**

   The RBI has decided to exempt banks from maintaining CRR and SLR for incremental FCNR(B) and NRE deposits, having a reference base date of July 1, 2022. This relaxation will be available from the reporting fortnight beginning July 30, 2022 for deposits mobilised up to November 4, 2022. The RBI has also clarified that any transfer from non-resident (ordinary) accounts to NRE accounts will not qualify for claiming this exemption.

2. **Interest rates on FCNR(B) and NRE term deposits**

   The RBI has permitted banks to raise fresh FCNR(B) and NRE term deposits without the existing ceiling on interest rates. This exemption is available from July 7, 2022 up to October 31, 2022.

   Prior to this exemption, interest rates on FCNR(B) deposits were subject to a ceiling of (i) overnight alternative reference rates plus 250 bps, where the maturity period of the said FCNR(B) deposit was more than 1 year but less than 3 years, and (ii) overnight alternative reference rates plus 350 bps, where the maturity period of the said FCNR(B) deposit fell between 3 years to 5 years. For NRE term deposits, the RBI had stipulated that the interest rate on NRE term deposits should be lesser than the interest rates offered by banks on domestic term deposits.

3. **FPI Investment in Debt**

   To encourage investments by foreign portfolio investors ("**FPIs**"), the RBI has announced for the following measures:

   a) The RBI has designated central government securities of 7 year and 14 year tenors, including the current issuances of 7.10% GS 2029 and 7.54% GS 2036, as specified securities under the fully accessible route for FPIs. This is in addition to central government securities of 5 years, 10 years and 30 years tenors, which are already treated as specified securities in which FPIs can invest.

   b) Currently, investments by an FPI in government securities and corporate debt with a maturity of less than 1 year is capped at 30% of their total investments. The RBI has announced that this existing limit of 30% will not apply if investments in government securities and corporate debt are made by the FPI by no later than

October 31, 2022. Further, these investments will not be taken into account for calculating the short-term limits till their maturity.

c) As a one-time measure, the RBI has permitted FPIs to invest in corporate money market instruments, namely, commercial papers and non-convertible debentures with an original maturity of up to 1 year. FPIs can stay invested in these investments till their maturity date. This temporary relaxation is available to FPIs till October 31, 2022. Further, these investments will also not be included when calculating the short-term limit for investments in corporate securities. Prior to this exemption, FPIs could only invest in corporate debt instruments with a residual maturity of atleast 1 year.

4. **Foreign Currency Lending by authorised dealer category-1 banks**

In order to assist small borrowers which are unable to approach overseas banks, the RBI has permitted authorised dealer category-1 banks to utilise their overseas foreign currency borrowings between July 8, 2022 and October 31, 2022 for lending in foreign currency to constituents in India. All such borrowings are available till the maturity / repayment of the overseas foreign currency borrowings and is subject to end-use restrictions stipulated by the RBI for external commercial borrowings.

5. **External Commercial Borrowings - Relaxations**

The RBI has announced the following relaxations until December 31, 2022 for external commercial borrowings:

a) The overall borrowing limit under the automatic route has been increased from the existing USD 750 million to USD 1.50 billion per financial year.

b) The all-in-cost ceiling has been increased by 100 bps (i.e., 1%) for all the borrowers with an investment grade rating.

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