Debt

47. External commercial borrowing (ECB) policies have been liberalised with respect to end-use of borrowed funds (Box 6.1). ECB funds can now be used to meet certain categories of rupee expenditure, which were hitherto not generally allowed. Net commercial borrowing in 1996-97 amounted to US $1,009 million against US $1,275 million in 1995-96. Although net borrowing is lower in 1996-97, the gross disbursement in the year was substantially higher at US $5,732 million against US $4,252 million in 1995-96. The amortisation also went up from US $2,977 million in 1995-96 to US $4,723 million in 1996-97, mainly due to bullet repayments of India Development Bonds. In April 1998, the ECB policy for 1998-99 has been further reviewed in the light of Southeast Asian financial crisis and its impact on international markets and requirements of different sectors. The requirements of having a longer maturity for larger borrowing, caps on borrowing cost and restrictions on end-use of ECB have helped in avoiding the difficulties, which some of the Southeast Asian Countries are currently facing.

48. Modifications were also made in the ECB policy to provide for easier access to external funds by the Indian industry to support investment and economic activity, and to increase transparency in the policies and procedures. Greater priority is given in the new policy for projects in the infrastructure and core sectors and the export sector (Table 6.10 gives the sectoral distribution of approvals). They would continue to be the thrust areas in regard to ECB allocation for financial year 1998-99. Development Financial Institutions who undertake ECB are also expected to give priority to the needs of medium and small-scale units through their sub-lending.

TABLE 6.10
Status of ECB Approvals

(US $ Million)

Sector	1996-97	1997-98
Power	1875	3014
Telecom	289	1493
Shipping	146	210
Civil Aviation	46	373
Petroleum & Natural Gas	783	230
Railways	144	179
Financial Institutions	1502	795
Ports, Roads, etc.		62
Others (incl. Exporters)	3797	2358
Total	**8581**	**8714**

BOX 6.1
Changes in ECB guidelines in 1997-98 and April 1998

- Power to sanction up to US $3 million has been delegated to the RBI.
- Corporations having foreign exchange earnings are now permitted to raise ECB up to twice the average amount of annual exports during the previous three years. This is subject to a maximum of US $100 million (up from US $15 million). The minimum average maturity will be three years up to US $15 million (or equivalent) and five years for higher amount. There are no end-use restrictions for general corporate objectives except investment in stock market or in real estate.
- Holding companies / Promoters have been permitted to raise ECB up to a maximum of US $50 million (or equivalent) to finance equity investment in a subsidiary/joint venture company implementing infrastructure projects.
- ECB of ten years average maturity is now outside the ECB ceiling, though prior approval is still necessary. Funds raised under this window will not be subject to end-use restrictions, other than those relating to investment in real estate and stock market. The maximum amount is US $100 million if the average maturity is ten years and above but less than 20 years, and US $200 million if the average maturity is twenty years and above. The Government will periodically review the debt approved under this window.
- As life of ships for financial appraisal purpose is reckoned by lenders as a shorter maturity and since ships are in the form of re-possessable collateral, it has been decided to reduce the average maturity requirement for shipping sector from seven years to five years for borrowing above US $15 million.
- With regard to companies holding ECB abroad, the extant guidelines of RBI would have to be strictly adhered to. RBI would be monitoring these.
- Prepayment facility would be permitted up to 20% of the present balance outstanding of each ECB across the board for all maturities.

49. Net inflow of non-resident deposits after accelerating strongly from US $944 million in 1995-96 to US $3,314 million in 1996-97, decelerated in 1997-98 to US $1142 million (Table 6.11). This decline was due to sharp declines in net inflows into NR(NR)RD and FCNR(B) schemes and higher redemption payments under the discontinued FCNR(A) scheme. Net outflow under the FCNR(A) scheme was US $2,270 million during 1997-98 up from US $1,949 million in 1996-97. The net inflow into the NR(NR)RD

account fell from US $2,246 million in 1996-97 to US $1,230 million in 1997-98. Net inflow into FCNR(B) account fell from US $1,773 million in 1996-97 to US $919 million in 1997-98. Changes in relative rates of return are partly responsible for this slow down. The expectation factor, in the wake of recent currency crisis in some of the neighbouring economies, may also have affected the timing of fresh inflows.

50. Total outstanding balances under various schemes of non-resident deposits at the end of March 97 stood at US $20.4 billion against US $17.4 billion at the end of March 96. At the end of March 1998, total outstanding balances remained at US $20.4 billion.

51. The downward trend in net disbursement under external assistance (excluding official grants) observed in the previous years was reversed in 1996-97. This was the result of both higher gross disbursements and lower repayments in 1996-97. Net disbursement consequently increased by about US $226 million to US $1,109 million in 1996-97. Net disbursement, on provisional basis, during 1997-98 amounted to US $885 million. Repayments at US $1,988 million remained more or less unchanged, while gross disbursements show a moderate decline to US $2,873 million.

52. A number of measures have been taken to provide flexibility to Foreign Exchange Dealers (ADs) and improve the efficiency of the foreign exchange markets. Banks are now allowed to undertake swaps/overseas investments within the cap of 15 per cent of their unimpaired tier I capital subject to overall gap discipline prescribed by the RBI. Banks have been allowed to provide credit and non-credit based facilities to Indian joint ventures and wholly owned subsidiaries abroad. For the first time, the capital account has been liberalised for resident individuals (and companies), who can now invest part of their savings in foreign assets. This will be through SEBI registered Indian Fund managers, including Mutual Funds, as per SEBI guidelines for overseas investment.

TABLE 6.11

Outstanding Balances and Net Flows under various Non-Resident Deposit Schemes

A. Outstanding Balances under Different Schemes*

(US$ million)

Schemes	As at the end of					
	March 93	March 94	March 95	March 96 (Revised)	March 97 (Revised)	March 98 (P.E.)
FCNR(A)	10617	9300	7051	4255	2306	36
FCNR(B)	—	1075	3054	5723	7496	8415
NR(E)RA	2862	3590	4556	3916	4983	5703
NR(NR)RD	610	1797	2479	3544	5604	6237
FC(B&O)D	1044	533	—	—	—	—
TOTAL	**15133**	**16295**	**17140**	**17438**	**20389**	**20391**

B. Net flows under Non-Resident Deposits**

(US$ million)

Schemes	1992-93	1993-94	1994-95	1995-96 (Revised)	1996-97 (Revised)	1997-98 (P.E.)
Foreign Currency Non-Resident (Accounts) (FCNR(A))	825	-1317	-2249	-2796	-1949	-2270
Foreign Currency Non-Resident(Banks) (FCNR(B))	—	1075	1979	2669	1773	919
Non-Resident External Rupee Accounts (NR(E)RA)	335	728	964	-208	1244	1263
Non-Resident (Non Repatriable) Rupee Deposits (NR(NR)RD)	610	1187	682	1279	2246	1230
Foreign Currency (Banks & Others) Deposits (FC(B&O)D)	350	-576	-558	—	—	—
TOTAL	**2120**	**1097**	**818**	**944**	**3314**	**1142**

P.E. : Provisional Estimates.

*** All figures are inclusive of accrued interest.** **** All figures are inclusive of accrued interest and valuation factor.**