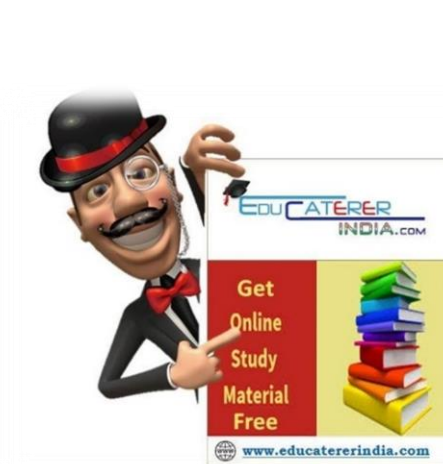


# External Commercial Borrowings - All You Need to Know



## Introduction

Capital inflows are always a major part of the development policy. The government have been always promoting this capital inflows. Lack of domestic capital has forced the government historically to go after foreign capital. Foreign capital is money drawn from foreign countries to make investment domestically. There are different types of foreign capitals and the major category is Foreign Direct Investment (FDI). Similarly, other types of foreign capital are NRI deposits and the most important one is External Commercial Borrowing (ECB).

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## External Commercial Borrowing

The money which is used for the financing of commercial activities in our country through foreign sources is called External commercial borrowing. They can be any form namely loans, credits or even security instruments. They are not allowed to trade through any stock exchanges. The loan

availed from foreign sources is of minimum average maturity of 3 years.

### Background

The framework for overseas borrowing has been entirely revised by the RBI. We knew that our economy is moving in a very pace manner, so as the framework is also amended over the years to match the pace with the changing regulatory and the commercial landscape.

### Significance

The ECBs have emerged as a major form of foreign capital called as FDI. The contribution of ECBs is 20 to 35 per cent in our total capital inflows. PSUs and corporates they use this ECB as a major platform for the source of investment. In our country large amount of ECBs are obtained by private sector corporates. It is easy to obtain funds through ECB to the corporate so as to increase the business expansion. The government plays a key role in permitting ECBs as a source of finance for any sort of expansion of existing capacity.

### Objective

- The government emphasizes to utilise ECBs much on the priority sectors or core sectors such as Power, Railways, Telecom, Infrastructure etc.
- They are even emphasizing much on the need of capital for small and medium enterprises.

### Regulations

In our country ECBs are accessed through automatic and approval route. The major regulators of this ECB are:

- Exchange Control Department of RBI.
- ECB Division in Ministry of Finance.

The main aim of ECB is to keep maturities long. It encourages all important sectors by financing and this ensures our overall growth of the

economy.

## Routes to access ECBs

It can be accessed through two routes Automatic Route and Approval Route. In automatic route the borrower enters into a loan agreement with the lender and then it will be sent to RBI for registration

In approval route borrower submits the application through an authorized dealer to RBI.

The Eligible borrowers through these two routes are:

Automatic Route	Approval Route
Special Economic Zones (SEZ)	Infrastructure or export finance companies ,banks and financial institutions which participates in steel and textile.
NGOs in micro finance activities.	NBFCs to finance import of infrastructure equipment for leasing, companies engaged in manufacturing activities.

## Impact on our Economy

The government is utilizing the ECBs primarily for funding of infrastructure and SME sector. The benefit for our economy is that the low cost International funds can improve our inflow of money in important sectors. Our companies are heavily dependent on ECB, so that they can lower their cost of borrowing. We need to be cautious as increase in ECB is not a good sign for our economy as our currency will be in risk and the rupee gets depreciated, if there is a increase in ECB. Thus, it clearly shows that if ECBs are not controlled, there can be a huge debt causing problem for our economy.

## Advantages

- The interest rates are very low for lending compared to domestic funds.
- Large volume of funds can be borrowed.
- Global financial market is much bigger source of credit.

- Any corporate can raise ECB from internationally recognized sources such as banks and some credit agencies.

## Future outlook

There will be an increase in demand for ECBs amongst the companies due to the following reasons:

- Huge amount of spending are expected on infrastructure projects.
- Domestic interest rate are rapidly increasing.

## Conclusion

We have a very vibrant corporate sector. Many of these corporate sectors have their overseas operational as well. The domestic financial market is not in a position to provide big loans and at low rate of interests to the corporates. ECBs have emerged as a prime tool for resources of funds for domestic companies.