Corpsec Hotline

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PROPOSALS TO LIBERALISE EXCHANGE CONTROL REGULATIONS

The Reserve Bank of India ("RBI") has recently announced the mid-term review of its annual policy statement for 2006-2007. Based on the recommendations made by the duly constituted committees, the RBI has proposed to liberalise the exchange control regulations to enable Indian resident entities to take advantage of the globalisation process. The significant proposals have been highlighted below:

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- An Indian resident individual will be permitted to remit upto USD 50,000 per financial year for any capital or current account transaction or a combination of both, as against the earlier limit of USD 25,000. The existing facilities for gifts, donations and investment by resident individuals in overseas companies would be subsumed under this revised limit.
- The existing facility for private travel up to USD 10,000 per financial year will continue to be available on a self-declaration basis.
- Non Resident Indians ("NRIs") and persons of Indian origin ("PIOs") are currently permitted to remit up to USD 1 million per calendar year for any *bonafide* purpose from their Non-resident Ordinary ("NRO") accounts maintained in India. However, if the funds in the NRO account represented sale proceeds of immoveable property which was acquired by the NRI or PIO out of resources in India, or by way of inheritance or gift, a lock in period was imposed on its remittance. It is proposed to eliminate the lock-in period, provided the amount being remitted in any financial year does not exceed USD 1 million.
- All foreign exchange earners may retain up to 100 per cent of their foreign exchange earnings in their Exchange Earners' Foreign Currency accounts.
- Limit for mutual funds to invest overseas is increased from USD 2 billion to USD 3 billion.
- Borrowers currently eligible for availing external commercial borrowing ("ECB") can avail of an additional USD 250 million for a term exceeding 10 years after obtaining prior approval of the RBI, in addition to the existing limit of USD 500 million per year under the automatic route.
- Ceiling on the amount of ECB that can be prepaid without prior approval of the RBI has been increased from USD 200 million to USD 300 million.
- Foreign Institutional Investor ("FII") investment in government securities enhanced to USD 2.6 billion by December 31, 2006 from the existing limit of USD 2 billion and further to $3.2 billion by March 31, 2007.
- Forward contract cancellation limit has been increased from 25 per cent to 50 per cent, while FIIs have been allowed to rebook 25 per cent of the cancelled forward contracts.
- Importers will be permitted to book forward contracts for their customs duty component of imports in order to provide the facility of hedging economic exposure.

RBI's proposals as highlighted above provide resident entities greater access to global capital markets. These proposals shall come into force when the amendments have been made to the relevant regulations under the Foreign Exchange Management Act, 1999.

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