Measures to Boost Forex Inflows

For Prelims: Forex, CRR, SLR, ECB, RBI

For Mains: Measures to Boost Forex Inflows

Why in News?

Recently, **Reserve Bank of India (RBI)** has undertaken measures **to enhance** forex **inflows**, amid **Depreciation** of Indian rupee.

Why has the RBI taken Measures to Boost Forex?

- The rupee has depreciated by 4.1 % against the US dollar during the **current financial year (2022-23)** so far amid the **ongoing geopolitical tensions.**
  - Indian Rupee has depreciated 4.1 % to 79.30 **against the US dollar** in the current financial year (FY 2022-23).
- Foreign Portfolio Investors (FPIs) have pulled out **Rs 2.32 lakh crore in six months.**
- India's **forex reserves**, over the last **9 months, have decreased by USD 50 billion to USD 593.3 billion.**

What is a Forex Reserve?

- **About:**
  - Foreign exchange reserves **are assets held on reserve by a central bank in foreign currencies**, which can include bonds, treasury bills and other government securities.
  - Most foreign exchange **reserves are held in US dollars.**
- **Components:**
  - Foreign Currency Assets
  - Gold reserves
  - Special Drawing Rights
  - Reserve Tranche Position with the **International Monetary Fund (IMF).**

What are the Measures?

- **FPI Investment in Debt:**
  - **Foreign Portfolio Investors (FPIs)** can **invest in government securities and corporate bonds.**
  - It has also sought to boost debt portfolio inflows by widening the basket of securities available to FPIs.
    - FPI is a route for foreign investment in India. It includes **investments in shares of listed Indian Company, Non-Convertible** Debentures**, units of domestic** MF (Mutual Fund), Government Securities**, Security Receipts, etc.**
- **Higher Returns:**
  - The RBI has allowed banks to give higher returns on foreign currency deposits on which

they will not have to maintain any reserves.
            - Interest rates **should not be higher than those offered by the banks on comparable domestic rupee** term deposits.
- **Relaxation Under ECBs:**
    - Rules governing **External Commercial Borrowing (ECB)** for corporates have been relaxed, with the automatic route being doubled to USD 1.5 billion and the cap on borrowing costs raised by 1% point.
        - ECBs are loans in India made by **non-resident lenders in foreign currency to Indian borrowers**. Used to facilitate **access to foreign money by Indian corporations** and PSUs (public sector undertakings).
- **Export Taxes:**
    - The Union government **has also increased export taxes on** oil and petroleum **products and** import duty on gold**,** to control the widening **Current Account Deficit.**
- **Exemption on FCNR(B) and NRE Deposits:**
    - **Non-Resident Indians (NRIs)** will get high returns for bringing foreign exchange into India into FCNR(B), and NRE deposits as the cap on rates has been removed for fresh deposits.
        - FCNR(B) are foreign currency non-resident deposits (denominated in foreign currency), while NRE deposits are non-resident external deposits.

What is External Commercial Borrowings?

- **About:**
    - ECBs is a loan availed by an Indian entity from a non-resident lender with a minimum average maturity.
    - Most of these loans are provided by foreign commercial banks buyers' credit, suppliers' credit, securitized instruments such as Floating Rate Notes and Fixed Rate Bonds etc.
- **Advantages:**
    - ECBs provide opportunity to borrow large volume of funds.
    - The funds are available for relatively long term.
    - Interest rate are also lower compared to domestic funds.
    - ECBs are in the form of foreign currencies. Hence, they enable the corporate to have foreign currency to meet the import of machineries etc.

Source: IE