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# PROPOSED CHANGES TO THE EXTERNAL COMMERCIAL BORROWINGS FRAMEWORK

On October 03, 2025, the Reserve Bank of India ("**RBI**") issued the draft Foreign Exchange Management (Borrowing and Lending) (Fourth Amendment) Regulations, 2025 ("**Draft Regulations**")[1], proposing a significant revamp of India's External Commercial Borrowing ("**ECB**") framework. This move reflects the government's broader push to make foreign borrowing more flexible and responsive to shifting global and domestic financial conditions.

The draft framework seeks to relax several long standing restrictions by introducing a market linked pricing regime in place of fixed all-in-cost ceilings, raising borrowing limits, broadening the eligibility of both borrowers and lenders, and simplifying end use and reporting requirements. Instead of rigid caps and uniform rules, the proposed framework relies more on risk based oversight through authorised dealers ("**AD Banks**"), encouraging greater participation while maintaining prudential safeguards.

If adopted in its present form, the new regime will mark a clear shift toward liberalisation and ease of access to offshore funding, allowing Indian businesses to negotiate more competitive terms, diversify capital sources, and align their financing strategies with the changing global economy.

## Part A. KEY ELEMENTS

1. **Borrowing limits re-calibrated.**

   Instead of a uniform automatic route cap of US$750 million (as per the previous regime) the Draft Regulations propose that eligible borrowers may raise ECB up to *the higher of:*

   (i) USD 1 billion; or

   (ii) total outstanding borrowings (external + domestic) up to 300% of their net worth (based on latest audited balance sheet).

2. **Minimum Average Maturity Period ("MAMP") simplified.**

   A uniform MAMP of 3 years is proposed. For manufacturing companies raising up to USD 50 million under certain conditions, a shorter maturity window of 1-3 years, may apply.

3. **Market-determined cost of borrowing (removal of "all-in-cost" ceilings).**

   The existing system has an "all-in-cost" ceilings (benchmark + fixed margin) for ECBs. The Draft Regulations propose to remove the fixed cost ceiling, with interest/ pricing to be determined by market terms (subject to due diligence by the lending/ AD Category I bank).

4. **Expanded eligibility of borrowers and lenders.**

   (i) Borrowers: Any person resident in India (other than an individual) established/ registered under a Central or State act, and otherwise permitted to borrow, may access ECB.

[1] https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=4736

(ii) Lenders: Expanded to include any person resident outside India, and foreign branches or IFSC-based branches of entities undertaking regulated lending activities.

5. **Simplified negative end-use list / greater flexibility**.

The Draft Regulations retain prohibitions but simplify and align them with the foreign direct investment ("**FDI**") policy. Key restricted end-uses include:

(i) investment in chit funds / Nidhi companies;

(ii) agriculture or plantation (except where FDI permits);

(iii) real-estate business or farmhouse construction (except where FDI permits and purchase/ long-term lease of industrial land);

(iv) trading in transferable development rights;

(v) on-lending except by regulated lending entities or specified intra-group structures;

(vi) dealing in securities, except in limited cases like mergers and acquisitions, primary issuances, etc.

6. **Draw-down / utilisation / reporting simplified.**

The Draft Regulations mandate repatriation of ECB proceeds to India in compliance with foreign currency account regulations. The Draft Regulations draws a shift from fixed periodic reporting filings to event-based reporting (like, drawdown, change in terms, refinancing, etc.) via the AD Banks. This simplifies compliance and reduces procedural friction for borrowers and AD Banks.

## Part B. REASON FOR THESE CHANGES

1. **Global capital markets and cost pressures**: With global interest rate environments, currency volatility and competitive funding sources, India's strict ceilings and uniform caps had become constraining. The shift to market based pricing and linking limits to net worth reflects a move toward aligning with international norms.

2. **Need for deeper foreign capital flows**: As Indian corporates expand, infrastructure and manufacturing require larger scale capital. By broadening who can borrow/ lend and raising limits, the Draft Regulations signal intent to tap overseas funding more meaningfully.

3. **Simplification amid structural change**: Simplifying maturities, end-use rules, and reporting helps reduce regulatory friction and supports faster uses of funds (e.g., for expansion, mergers and acquisitions, etc.).

4. **Aligning with FDI / international frameworks**: The end-use liberalisation, and lender eligibility expansion reflects convergence toward broader global regimes and India's aim to cultivate more cross-border financing.

## Part C. KEY IMPLICATIONS AND STRATEGIC TAKE AWAYS

1. **Indian corporates**: The Draft Regulations offer the opportunity to raise larger amounts of foreign borrowing, diversify funding sources, negotiate more competitive pricing, and structure maturities more flexibly.
2. **Lenders/ foreign banks**: The removal of cost ceilings and wider lender eligibility opens up potential for more transactions into India's external debt space.
3. **Sectors like manufacturing, infrastructure, possibly real estate (where FDI is permitted)**: These changes may unlock new funding channels.
4. **Risk/ treasury departments**: Need to re-assess borrowing and currency risk frameworks, hedging strategies (given more foreign currency borrowings), and monitor compliance under the revised rules.
5. **Regulators and oversight**: Although liberalised, there remains emphasis on prudential oversight (via AD Banks assessing underwriting risk, no change to the negative end use list, MAMP still enforced). Hence, risk control remains key.

## Part D. WHAT TO LOOK OUT FOR?

1. **Finalisation of the regulations**: The draft was open for public comments till October 24, 2025 and the final regulations may have tweaks.
2. **Effective date and transition arrangements**: How existing ECB contracts will be treated, whether grandfathering applies, and how refinancings will be regulated under the new regime.
3. **Sector-specific applications and constraints**: Although the regime is more liberal, sectoral regulations (e.g., for banking, infrastructure, etc.) may impose additional requirements.
4. **Hedging/ foreign-exchange risk**: With more access to foreign currency borrowing, companies must be aware of currency risk, hedging norms, repayment liabilities.
5. **Corporate structuring and net-worth calculations**: Since limits tie into net worth, accurate auditing, consolidation, classification of borrowings will be important.

## Part E. CONCLUSION

Through the Draft Regulations, RBI has taken a significant step towards liberalisation of India's ECB regime. By replacing uniform caps with borrower specific limits tied to financial strength, removing all-in-cost ceilings, broadening access for borrowers and lenders, and simplifying maturity and end use rules, the government is signalling a response to both global funding realities and India's growing capital needs.

For companies looking to raise foreign borrowing (or re-finance existing debt), this presents a meaningful opportunity, provided they align their credit profile, governance, end use compliance and hedging/ risk frameworks accordingly.

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