



ECB REGULATIONS IN INDIA: A CRITICAL ASSESSMENT AND REFORM AGENDA

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Abstract: This paper critically assesses India’s regulatory framework for External Commercial Borrowings (ECBs), highlighting how compliance burdens, uniform cost ceilings, and rigid end-use restrictions limit access—especially for small and mid-sized firms. Comparative insights from Brazil, Indonesia, Singapore, South Korea, and Vietnam illustrate alternative models of proportionate and flexible regulation. The paper proposes reforms such as streamlined compliance, risk-based cost bands, and selective liberalization of end-use rules. A reoriented ECB framework can better balance prudential safeguards with India’s developmental financing needs.

Introduction

External Commercial Borrowings (ECBs) are defined as “commercial loans in foreign currency raised by Indian borrowers from recognized non-resident lenders (RBI, 2019).”

This paper examines the regulatory design of ECBs in India, identifies key drawbacks such as compliance burdens, cost ceilings, and end-use restrictions, and considers their disproportionate impact on smaller and mid-sized firms. It also draws on comparative experiences from Brazil, Indonesia, Singapore, South Korea, and Vietnam to highlight how proportionate regulation, targeted liberalization, and procedural efficiency can expand access without undermining stability. As a response to the structural barriers identified in the current framework, the paper advances policy recommendations aimed at recalibrating the ECB framework into a more flexible and development-oriented instrument.

I. ECB Finance and Regulation in India

Infrastructure alone is projected to require USD 2.4 trillion by 2050, yet domestic banks remain constrained by sectoral caps, high non-performing assets, and capital adequacy requirements (World Bank, 2024).

ECBs form an important component of India’s external debt portfolio and act as a key mechanism for mobilising foreign capital to bridge the gap between India’s investment demand and limited domestic credit supply, especially in the infrastructure sector. In this context, ECBs provide Indian corporates (especially in power, transport, and telecom) with access to long-term, lower-cost capital from global markets (Press Information Bureau, 2025).

The regulatory foundation for ECBs lies in the Foreign Exchange Management Act, 1999 (FEMA), under which the Reserve Bank of India (RBI) issued the Master Direction – External Commercial Borrowings, Trade Credits and Structured Obligations, 2019, most recently updated in 2023 (Master Circular). This consolidated framework governs all stages of ECBs: eligibility of borrowers and lenders, minimum average maturity, all-in-cost ceilings, hedging requirements, end-use restrictions, and compliance obligations (RBI, 2019).

Key features of the regulatory framework include:

Routes for Access: Paragraph 2.3 of the Master Circular provides two channels: the automatic route, where Authorized Dealer Category-I banks (AD Banks) clear proposals if conditions are met, and the approval route, where the RBI must approve sensitive sectors or higher amounts. While intended as a safeguard, the approval route has been criticised for delays and opaque decision-making.

Cost Controls: A uniform all-in-cost (AIC) ceiling applies under Paragraph 2.1(vi) of the Master Circular, limiting spreads over benchmark rates. Although meant to curb excessive foreign leverage, this cap has restricted mid-sized and higher-risk firms, as lenders cannot price risk above the ceiling.

End-Use Restrictions: Paragraph 2.1(viii) of the Master Circular prohibits the use of ECB proceeds for land acquisition, real estate, working capital, general corporate purposes, rupee loan repayment, and on-lending, with narrow exceptions such as borrowings from a foreign equity holder.

Compliance Burden: Borrowers must obtain a Loan Registration Number (LRN), submit monthly ECB-2 returns, and comply with reporting obligations under paragraph 6 of the Master Circular. For SMEs, these obligations often pose disproportionate costs and delays, concentrating ECB inflows among large corporates.

II. Criticisms of the ECB Regulatory Framework

The ECB framework remains constrained by design flaws that restrict its inclusivity and developmental impact. This section examines the key regulatory rigidities of the Master Circular.

(a) Structural Barriers for SMEs: Compliance Burden and Cost Ceilings

First, the compliance requirements under the Master Circular are extensive. Borrowers must obtain a LRN, file prescribed forms through AD Banks, submit monthly ECB returns, and comply with end-use restrictions. Paragraph 2.3 of the Master Circular provides for two channels (as also discussed above, but elaborated herein for explanation purposes): the automatic route, which operates through AD Banks, and the approval route, which requires RBI clearance for sensitive sectors, higher amounts, or specific investor classes. In practice, the approval route involves delays and uncertain timelines, creating additional transaction costs. Smaller enterprises often lack the administrative capacity to meet these requirements, leading to a concentration of ECB inflows among larger, established entities (RBI, 2022–23; Saxena, 2019; Raghavan, 2021).

Second, the cost framework limits access for mid-sized borrowers. Under Paragraph 2.1 of the Master Circular, a uniform AIC ceiling applies to all ECBs, regardless of borrower profile. While intended to prevent unsustainable foreign leverage, this uniform cap does not account for differing risk premiums. Mid-sized or riskier firms are effectively excluded because lenders cannot price in higher risks without breaching the ceiling.

Together, the compliance burden and the cost ceiling restrict the pool of eligible borrowers and skew ECB access toward financially stronger corporates. This undermines the inclusivity of the framework and reduces its effectiveness as a developmental financing instrument (Kumar, 2013).

(b) End-Use Rigidity

The Master Circular prohibits the use of ECB proceeds for land acquisition and real estate construction, with limited exceptions such as affordable housing. While this restriction is intended to prevent asset bubbles in a historically volatile sector, it has significantly constrained financing for real estate, which already faces capital shortages (Gada, Shanker, & Sanil, 2019). Domestic banks, constrained by exposure caps and rising NPAs, have been reluctant to provide long-term credit, leaving developers reliant on costlier domestic sources (PTI, 2018).

The blanket ban also fails to distinguish between high-risk speculative construction and lower-risk segments such as IT parks or infrastructure-linked housing. These segments could generate foreign currency revenues and offer stronger repayment safeguards, making them more suitable candidates for ECB financing. By excluding such projects, the framework diverts cheaper foreign capital away from a capital-starved, employment-intensive sector and restricts its growth potential.

Paragraph 2.1(viii) of the Master Circular prohibits the use of ECB proceeds for working capital purposes, general corporate purposes, repayment of rupee loans, and on-lending for these activities. The only exception is where the borrowing is from an

eligible foreign equity holder, who may on-lend such funds. This carve-out reflects the RBI's preference for shareholder-backed inflows, which are treated as more stable and aligned with long-term corporate commitment, while discouraging short-term borrowings.

Infrastructure projects are characterized by heavy upfront capital outlays, long gestation periods, and delayed revenue streams. Even fundamentally sound projects often face temporary cash shortfalls during construction delays, cost overruns, or regulatory bottlenecks. The inability to tap external commercial borrowings for bridging finance or working capital exacerbates these pressures. The contrast with peer jurisdictions is stark. Brazil permits working capital ECBs subject to registration and minimum maturity norms (Central Bank of Brazil, 2010), while Indonesia allows them under hedging, liquidity, and creditworthiness safeguards (Tauhid, Setyabrata, & Irsan, 2021). These frameworks recognize that temporary liquidity inflows, when prudently structured, can sustain long-term projects through downturns without compromising systemic stability.

III. Policy Recommendations

The ECB framework needs to evolve in line with India's changing financing requirements. The Master Circular was last comprehensively updated in 2019, but global financial markets and India's domestic credit conditions have shifted significantly since then. To remain effective, India must update its regulations to improve efficiency using technology and align it with comparative best practices adopted in other jurisdictions.

(a) General Reduction of Compliance Burden and Administrative Delays

The dual-track system of the automatic and approval routes has, in practice, created inefficiencies due to delays and opaque decision-making in the approval process. Two reforms are advisable.

First, a wider range of sectors with clear strategic relevance - such as renewable energy, electric mobility, and advanced manufacturing - should be shifted to the automatic route. This would align regulatory processes with national development priorities and reduce unnecessary bottlenecks.

Second, where approval remains necessary, the RBI should introduce time-bound decision rules and transparent criteria. Applications should be disposed of within a fixed period (example, 30 days), and reasons for rejection should be mandatorily recorded and communicated.

The State Bank of Vietnam's external borrowing framework provides an instructive model. Approvals must be granted or refused within 12 days for online submissions and 15 working days for paper submissions, with only limited exceptions extending to 45 days. If an application is rejected, the reasons must be clearly set out. This system has enhanced market confidence while preserving prudential oversight (State Bank of Vietnam, 2016).

(b) ECB Access to SMEs

One option is for the RBI to issue a new circular specifically tailored for SMEs. Alternatively, the framework could be amended to introduce proportionate compliance obligations, where requirements match the borrower's size and capacity to bear costs. Large corporates with significant systemic exposure could continue under the existing structure, while SMEs could benefit from simplified filings, less frequent reporting (for example, quarterly instead of monthly), and consolidated end-use disclosures. A centralized ECB digital portal would further reduce transaction costs by streamlining registration, approvals, and reporting.

Other jurisdictions provide useful models for balancing regulatory oversight with borrower inclusivity. In Singapore, the Monetary Authority applies a borrower-sensitive framework where compliance obligations are scaled to the size and risk profile of the firm. Smaller companies face lighter filing requirements, reduced disclosure frequency, and simpler approvals, while larger or systemically significant borrowers are subject to stricter scrutiny. This ensures SMEs can access international borrowing without undue cost or delay (IMF, 2013). Brazil adopts a different but complementary approach by permitting flexible pricing bands for external loans. Lenders may adjust spreads and fees to reflect borrower risk, allowing mid-sized and higher-risk firms to participate in the market. To safeguard stability, the Central Bank of Brazil requires full transparency and supervisory reporting of all-in-costs (Central Bank of Brazil, 2010). Together, these frameworks demonstrate how proportional regulation can broaden access to external finance while maintaining prudential control.

India's ECB framework could adopt a similar risk- and borrower-sensitive model. Instead of a single compliance and cost regime applied across the board, requirements could be calibrated: higher standards for blue-chip corporates, and proportionate obligations for SMEs and high-growth ventures.

(c) Flexible End-Use Access

The current blanket ban on ECBs for real estate, working capital, and rupee loan repayment should be revised to distinguish between speculative uses and lower-risk, strategically aligned projects. Inspiration can be drawn from developing country comparative best practices:

- Brazil permits ECBs for working capital under conditions such as minimum maturity thresholds and sectoral caps. This ensures that firms can manage liquidity pressures while short-term speculative inflows are contained.
- Indonesia adopts a broader framework, allowing ECBs for working capital, general corporate purposes, and rupee loan repayment, but subjects them to mandatory hedging ratios, liquidity safeguards, and borrower creditworthiness checks.
- South Korea follows a targeted liberalization approach, permitting foreign debt inflows into export-linked real estate and tourism projects where there is a demonstrated capacity to generate foreign currency revenues.
- To benefit from these comparative best practices, section 2.1 (viii) of the Master Circular should be amended as follows:

Current Drafting	Proposed Drafting
<p>The negative list, for which the ECB proceeds cannot be utilized, would include the following:</p> <ol style="list-style-type: none"> Real estate activities; Investment in capital market; Equity investment; Working capital purposes, except in case of ECB mentioned at v(b) and v(c) above; General corporate purposes, except in case of ECB mentioned at v(b) and v(c) above; Repayment of Rupee loans, except in case of ECB mentioned at v(d) and v(e) above; On-lending to entities for the above activities, except in case of ECB raised by NBFCs as given at v(c), v(d) and v(e) above. 	<p>The negative list, for which the ECB proceeds cannot be utilised, shall include:</p> <ol style="list-style-type: none"> Land acquisition and speculative real estate activity; Investment in capital market; Equity investment. <p>ECBs may, however, be permitted for the following purposes, subject to prudential safeguards:</p> <ol style="list-style-type: none"> Real estate and infrastructure projects that generate foreign currency revenues or serve strategic national objectives (including IT parks, logistics hubs, green housing, SEZ-linked projects, and tourism infrastructure), provided they comply with minimum average maturity periods, mandatory hedging, and escrow of revenues. Working capital, general corporate purposes, and repayment of rupee loans, subject to capped maturities of three to five years, sector-specific borrowing limits, mandatory hedging, and enhanced end-use disclosure. On-lending by NBFCs for the above permitted purposes, provided equivalent prudential safeguards are observed.

IV. Conclusion

This paper identifies the main criticisms of India's ECB framework and provides corresponding recommendations to address such identified criticisms, restated below.

- The compliance framework imposes disproportionate costs on smaller firms, which can be mitigated through tiered reporting and a digital ECB portal.
- The uniform all-in-cost ceiling results in credit rationing for mid-sized and higher-risk borrowers, warranting risk-differentiated cost bands.
- Overbroad end-use restrictions exclude lower-risk, strategically aligned projects and liquidity support, which should be permitted under strict safeguards.
- The approval route suffers from delays and opacity, highlighting the need to expand the automatic route and introduce time-bound, transparent approvals.

This paper urges the RBI to consider targeted reforms that are simple and implementable but carry significant macroeconomic benefits. By modernizing the ECB framework in line with corresponding best practices of developing countries, India can transform ECBs into a more inclusive and effective tool for development finance.

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