

## **FEMA UPDATE: IMPORTANT STEPS BY RBI FOR EXCHANGE RATE MANAGEMENT**

Due to historical down fall in the price of INR viz a viz USD, RBI has recently taken lots of monetary and regulatory steps. Here are some of important steps taken by the RBI under Foreign Exchange Management Act .

Two most important steps are reducing the limit under liberalized remittances scheme for resident individuals from USD 200000 to USD 75000, including barring the investments in real estate under this scheme, and , reduction in the overall limits of 400% of net worth to 100% of net worth of Indian Party for overseas investments in JVs and WOS.

### **1. Deregulation of interest rates on Non Resident External (NRE ) Account: CIRCULAR NO. DBOD.DIR.BC.40/13.03.00/2013-14, DATED 14-8-2013**

As of now, interest rates offered by banks on NRE deposits cannot be higher than those offered by them on comparable domestic rupee deposits. However, in order to pass on the benefit of exemption provided on incremental NRE deposits with maturity of 3 years and above from CRR/ SLR requirements, it has been decided to give banks the freedom to offer interest rates on such deposits without any ceiling. The extant ceiling on NRO Accounts shall continue.

### **2. LIBERALISED REMITTANCE SCHEME FOR RESIDENT INDIVIDUALS- REDUCTION OF LIMIT FROM USD 200,000 TO USD 75,000**

Resident Individuals were allowed to use USD 200000 per financial year (April to March) for any purpose, under this scheme. Now limit of this USD 200000 has been restricted to UDS 75000. Further limitation of use of funds under this scheme have been incorporated

The scheme should no longer be used for acquisition of immovable property, directly or indirectly, outside India. Therefore, AD Category-I banks may henceforth not allow any remittances under the LRS Scheme for acquisition of immovable property outside India.

The scheme should not be used for making remittances for any prohibited or illegal activities such as margin trading, lottery etc., as hitherto.

The limit for gift in Rupees by Resident Individuals to NRI close relatives and loans in Rupees by resident individuals to NRI close relatives shall accordingly stand modified to USD 75,000 per financial year.

## **INTEREST RATES ON FCNR(B) DEPOSITS**

**CIRCULAR NO. DBOD.DIR.BC. 38/13.03.00/2013-14, DATED 14-8-2013**

In case of FCNR(B) deposits, having maturity period 3 to 5 years, the interest rates have been increased upto LIBOR/SWAP plus 400 basis points in place of 400 basic points.

## **OVERSEAS DIRECT INVESTMENTS**

**(DIR SERIES 2013-14) CIRCULAR NO. 23, DATED 14-8-2013**

Reduction in limit of investments in approval route

Earlier Indian Parties were allowed to invest in overseas JVs and WOS upto the 400% of their net worth based on the last audited balance sheet. RBI has now reduce this limit upto 100% of the new worth.

Any investments/ commitments exceeding 100% of new worth, now on wards, will be in approval route.