RBI raises short-term FPI debt investment limit to 30% from 20% to boost inflows

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In a move that could lead to higher foreign inflows, the Reserve Bank of India (RBI) has hiked the short-term investments by foreign portfolio investors (FPIs) from 20 per cent to 30 per cent of the total FPI investment in Central government securities (including Treasury Bills) or state development loans.

In another measure aimed at giving a leg-up to bankruptcy proceedings, the central bank has exempted FPI debt investments in corporates undergoing insolvency resolution plan.

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FPI investments in Security Receipts are currently exempted from the short-term investment limit and the issue limit. The RBI has extended the exemptions to debt instruments issued by Asset Reconstruction Companies and debt instruments issued by an entity under the Corporate Insolvency Resolution Process as per the resolution plan approved by the National Company Law Tribunal under the Insolvency and Bankruptcy Code. “The RBI move to bring insolvency process under exemption will boost the investor interest,” said an analyst.

According to the current norms, short-term investments by a FPI should not exceed 20 per cent of the total investment of that FPI in either central government securities (including treasury bills) or state development loans.

The hike in short-term debt investment limit has come at a time when the debt market witnessed an outflow of Rs 11,917 crore in January this year. The month of December 2019 also saw outflows of Rs 4,616 crore and November outflows were Rs 2,358 crore.

While the total equity investment in calendar year 2019 was Rs 101,122 crore, debt market could attract only Rs 25,882 crore.

India’s corporate bond market has remained shallow despite a host of measures by the government and the regulator. There is little or no incentive for market making. A majority of the bonds issued by companies are privately placed with a select set of investors in India rather than through a public issue; this is done to both save time and avoid greater disclosures. Besides, defaults by IL&FS and delayed payments by some NBFCs have led to liquidity crunch in the financial sector.

Analysts are expecting more measures to deepen the debt market in the forthcoming budget on February 1. In her Budget speech last year, Finance Minister Nirmala Sitharaman had said that an action plan to deepen the market for long term bonds including for deepening markets for corporate

bond repos, credit default swaps etc, with a specific focus on the infrastructure sector, would be put in place.

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