RBI rationalises FII investment in bonds removes sub-limits

The Reserve Bank today announced rationalisation of FII investment in bonds, including G-Secs, by doing away with various categories, a step to attract more foreign inflows to fund widening current account deficit.

"On a review, to simplify the existing limits, it has now been decided to merge the existing debt limits into two broad categories," RBI said in a notification.

The first category will consist of government securities of USD 25 billion which merges USD 10 billion for investment limit in short-term government papers, including Treasury Bills, and USD 15 billion for long-term government papers.

The second category is for the corporate debt with a limit of USD 51 billion, including a sub-limit of USD 25 billion each for bonds of infrastructure sector and non-infrastructure sector, and USD 1 billion for QFIs (Qualified Foreign Investors) in non-infrastructure sector. "The above changes will come into effect from April 1, 2013," it said.

Hit by high gold and petrol imports and slowdown in exports, current account deficit-- the difference between inflow and outflow of foreign currency-- touched a record high of 6.7 per cent in October-December period of 2012-13. The Current Account Deficit (CAD) can be financed only through foreign inflows, Finance Minister P Chidambaram had said.

The eligible investors for these two categories are FIIs, QFIs and Long terms investors registered with SEBI-Sovereign Wealth Funds (SWFs), multilateral agencies, pension and insurance and central banks of other countries.

In case of investment in G-secs category, eligible investors may invest in treasury bills only up to USD 5.5 billion within the limit of USD 25 billion. In the other category, investors may invest in commercial papers only upto USD 3.5 billion within the limit of USD 51 billion.

However, it said, the Non-Resident Indians are not subject to any limit for investment in Government Securities as well as corporate debt. They will continue to be regulated as per existing guidelines.

The Finance Ministry said in a separate statement that these sub-limits have been carved out based on the current holdings of such short term instruments by FIIs and have been provided so that existing investments are not adversely affected.

Because of the room created by unifying categories, the current SEBI auction mechanism allocating debt limits for corporate bonds will be replaced by the 'on tap system' currently in place for infrastructure bonds, it said. In order to allow large investors to plan their investments, it said the government will review the foreign investor limit in corporate bonds when 80 per cent of the current limit is taken up.

Further, it will enhance the limit on government bonds as and when needed, based on utilisation levels, demand from foreign investors, macro-economic requirements and a prudent off-shore and on-shore balance.

To provide a guide to investors, it has been decided that the annual enhancement of the government bond limit will remain within 5 per cent of the gross annual borrowing of the Central Government excluding buy backs, the statement said.

These measures will simplify the norms for foreign investment and are likely to encourage greater capital inflows, enhance the flow of resources to the Indian economy and encourage development of the debt market in India.

(Economic Times)