

Aditi Gupta
 Economist

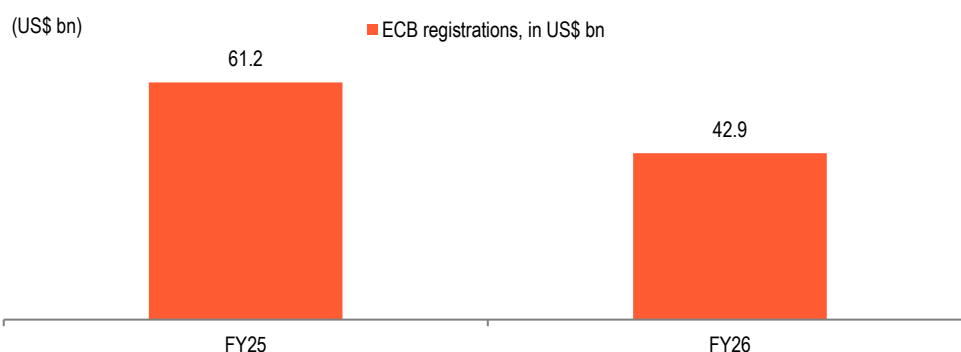
ECBs in FY26

ECB registrations moderated to US\$ 42.9bn in FY26 from US\$ 61.2bn in FY25. More recently, in Apr'26, there has been a further moderation in ECB registrations to US\$ 3.8bn compared with US\$ 5.4bn in Mar'26. Heightened currency volatility and lower spread with the US can explain some part of the decline in ECB registrations. NBFCs remain the largest borrowers in the ECB market, accounting for over 39% of total registrations. Further, most borrowers in the market preferred using ECBs for on lending and refinancing of earlier ECBs. However, there was a pickup in ECB mobilization for the purchase of capital goods and infrastructure, which suggests traction in the domestic capex cycle. Further, while other commercial banks are the main sources of financing for ECBs, IFSC has emerged as another new avenue. Overall, while ECB registrations have come down in FY26, we expect an improvement this year led by RBI's announcement of dollar-rupee swap facility for PSU borrowers. This will help in supporting India's overall balance of payment at a time when the current account deficit is poised to increase.

ECB registrations in FY26

External commercial borrowings act as a supplementary source of funding for domestic companies. Over the years, ECBs have followed a diverging trend based on the availability of domestic resources, demand for funds, global rates and the movement in domestic exchange rates. In FY26, ECB registrations (including FCCBs) stood at US\$ 42.9bn, declining from US\$ 61.2bn in FY25. This can be attributed to a sharp depreciation in INR (leading to higher hedging costs) and narrowing rate differential with the US.

Fig 1: ECB registrations declined in FY26



Source: CEIC, Bank of Baroda Research

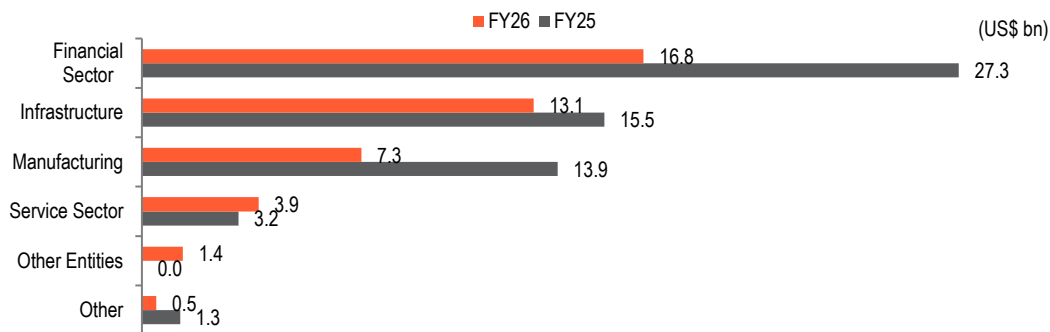
Majority of the ECB registrations continue to be through the automatic route. In fact, about 84% of total ECB registrations were under the automatic route. In comparison, ECB registration under the automatic route accounted for 78% of total ECB registrations last year.

Borrowing profile of ECBs

In terms of the borrower profile, financial sector, comprising largely of NBFCs remains the single largest borrower in the ECB market. In FY26, NBFCs accounted for about 39% of total ECB registrations, this is lower than 45% last year. In absolute terms as well, ECB registrations by NBFCs totalled US\$ 16.8bn in FY26, compared with US\$ 27.3bn in FY25, which largely explains the decline in total ECB registrations. Two reasons for this are that there was restoration of the capital norms for bank lending to NBFCs which made domestic borrowing economical. Second the interest rates within the country had also come down by 125 bps.

ECB registrations by the infrastructure sector too fell in FY26, even though the decline was not very significant. Manufacturing sector witnessed a much sharper deceleration in ECB registrations in FY26. In fact, ECB registrations by the manufacturing sector almost halved to US\$ 7.3bn in FY26 compared with US\$ 13.9bn in FY25. On the other hand, there was improvement for the services sector.

Fig 2: NBFCs dominate the ECB market

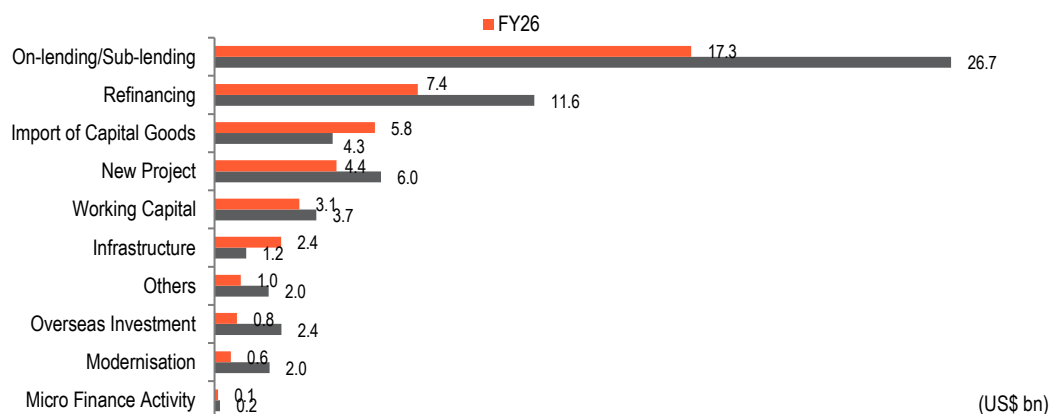


Source: RBI, Bank of Baroda Research

Purpose of ECBs

On lending/sub-lending remains the single most important way in which ECBs are being used. In FY26, about 40% or US\$ 17.3bn of the total ECB registrations were for on-lending or sub lending, primarily by NBFCs. Another important use of ECBs is to refinance earlier ECBs/rupee loans. In FY26, ECB registrations for this purpose stood at US\$ 7.4bn, compared with US\$ 11.6bn. This is usually used by export-oriented manufacturers to roll over their existing debt obligations and reduce borrowing costs as well as counter the exchange rate risk.

Fig 3: NBFCs dominate the ECB market



Source: RBI, Bank of Baroda Research

ECB registrations for imports of capital goods increased to US\$ 5.8bn in FY26 from US\$ 4.3bn in FY25. This is encouraging and suggests that companies are spending on capex. Incidentally, India’s capital goods imports increased by about 7% in FY26. ECB registrations for new projects dipped to US\$ 4.4bn from US\$ 6bn in FY25. Similarly, there was a moderation in companies raising ECBs for working capital requirements, overseas investment and modernisation. On the other hand, ECB registrations for the purpose of infrastructure development witnessed a marginal improvement.

Tenure of ECBs

Majority of the ECBs are concentrated in the less than 10 years tenure. In FY26, about 40% of the ECB registrations were for less than 5 years duration. In FY25, the corresponding figure was 32%. Further, while 41% of ECB registrations were in the 5-10 tenor in FY26, the corresponding ratio was 52% in FY25. The share of ECBs over 15 years has increased significantly to ~20% in FY26, compared with about 16% in FY25. This suggests that ECBs are increasingly being used as a source of long-term funding.

Table 1: Tenure wise breakup of ECB registrations

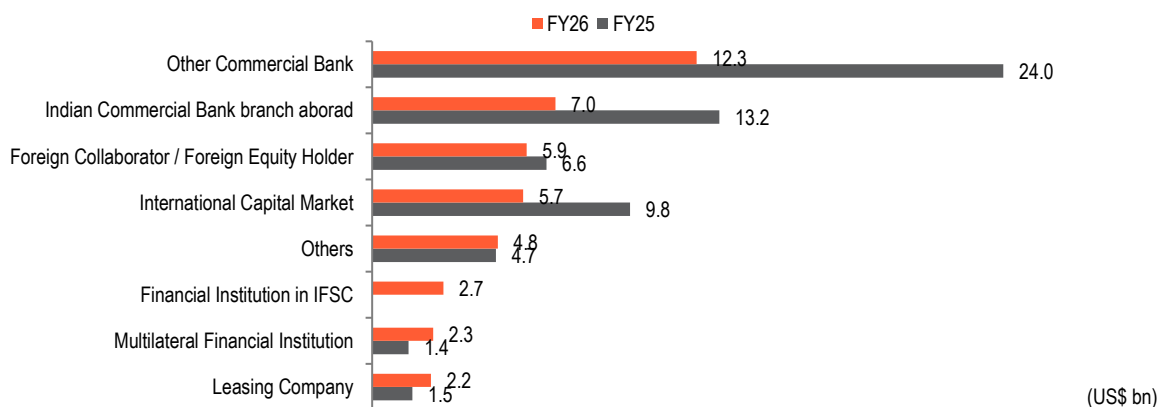
Tenure	FY25	FY26
Less than 5 years	19.7	17.0
5-10 years	31.8	17.6
between 10-15 years	6.9	6.4
above 15 years	2.8	2.0
Total	61.2	42.9

Source: RBI, Bank of Baroda Research

Sources of ECBs

‘Other commercial banks’ accounted for about 29% of total ECB registrations in FY26. This was lower than 39% in the same period last year. Similarly, the share of Indian commercial bank branches abroad, foreign equity holder and international capital market as sources of ECBs has declined in FY26. On the other hand, mobilization of ECBs through financial institutions in IFSC has picked up pace in FY26. However, the amount is still small but is expected to pick up in the coming months. Along similar lines, ECB mobilization through alternate sources such as multilateral financial institutions and leasing company has seen some traction.

Fig 4: Sources of funds for ECBs



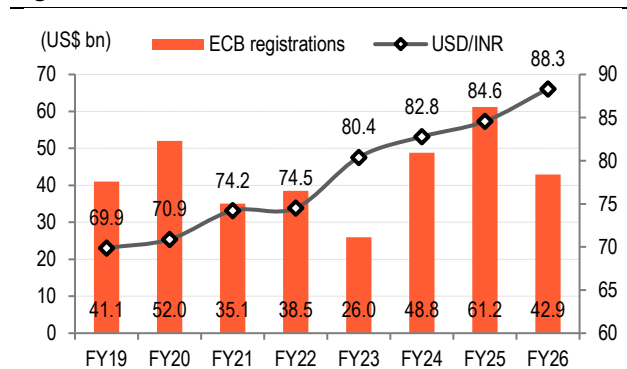
Source: RBI, Bank of Baroda Research

What can explain the moderation in ECBs:

ECB registrations moderated in FY26 due to a number of factors. Currency volatility, specifically the rapid decline in the value of the domestic exchange rate, was an important factor. In FY26, INR depreciated by 4.3% based on yearly average, compared with a decline of 2.1% in FY25. On a point to point basis, the decline was much sharper at 9.9% this year, compared with 2.4% in FY25. The average daily annualized volatility in INR also picked up to ~5% in FY26 versus 2% in FY25. Volatility in the exchange rate and a rapidly depreciating currency raises the risk as well as cost for the borrowers as it increases the hedging costs. Hence, a part of the moderation in ECBs in FY26 can be explained by the rupee depreciation.

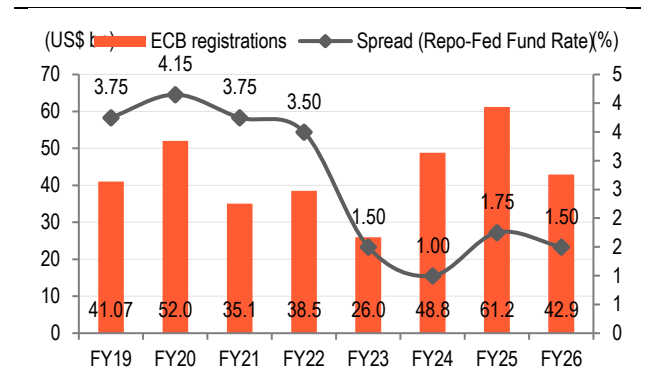
At the same time, interest costs, primarily, a lower global interest rate is a significant advantage for domestic borrowers. In FY26, the spread between India and US interest rate (as measured by the difference in respective policy rate) narrowed to about 150bps, which is much lower than historical average of about 300-400bps. The narrowing is due to the fact that the policy easing cycle was much faster in India than in the US. In FY26, while RBI's policy rate declined by 100bps, US Fed rate was reduced by only 75bps. Hence, the cost advantage for borrowers to borrow funds from the US has declined, which makes domestic credit more attractive. This has also been reflected in the robust growth in domestic credit in FY26 (16.1% YoY).

Figure 5: Currency depreciation impacts ECB registrations



Source: CEIC, Bloomberg, Bank of Baroda Research

Figure 6: Interest rate spread also an important determinant of ECB flows



Source: CEIC, Bloomberg, Bank of Baroda Research

Outlook and way forward:

ECBs have not traditionally been an important contributor to India's balance of payment dynamics. However, they offer supplementary support to the capital account, which is crucial since India typically runs a deficit on the current account. This is especially important in the present context as FPI inflows, which traditionally form the bulk of the capital account surplus (along with FDI inflows), have been rather volatile. To counter this, RBI announced a slew of measures to attract foreign inflows.

For ECBs particularly, RBI announced a dollar-rupee swap facility for PSU borrowers with average maturity between 3 to 5 years, with a fixed swap rate of 1.5% per annum, compounded semi-annually. This will provide a significant boost to ECB inflows as this protects PSU borrowers against the currency risk, while also reducing the cost of hedging. In this context, it is important to note that in FY26, the share of PSUs in total ECB registrations was around 15-20%, which suggests that there is a huge,

untapped potential. The actual amount of inflows will depend on PSUs' capital positioning as well as capex plans.

Overall, we expect a pickup in ECB inflows in FY27. This along with other measures by the RBI to attract foreign inflows should help offset the widening current account deficit, leading to a net accretion of foreign exchange reserves in FY27.

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com