Immediate

F.No.20/15/2012-BO.II
Ministry of Finance
Department of Financial Services

3rd Floor, Jeevan Deep Building,
Parliament Street, New Delhi
Dated the 2nd July, 2012

To

Chief Executives of all Public Sector Banks / Private Sector Banks
Chief General Manager, DBOD, RBI, Mumbai
Chairman, IBA, Mumbai

Subject: Export Credit in Foreign Currency.

Sir,

There has been a persistent demand from the exporters that timely, adequate and cost-effective credit is not available but is required for increasing the exports. The issue has been examined by the Government and it has been accepted that in order to make our exports globally competitive, the exporters should be given export credit at the competitive rates. The export promotion is the highest national priority in view of the persistent current account deficit and pressure on Indian Rupee. In view of this, the following measures are suggested by the Department of Financial Services, Ministry of Finance, which are in conformity with the RBI Circulars on Export Credit.

2. As per the present Reserve Bank of India guidelines, Authorised Dealers are permitted to extend pre-shipment credit and post-shipment credit in foreign currency. The source of funds for extending such loans is as under:

(i) Funds mobilized under various foreign currency deposit schemes.
(ii) By availing line of credit from banks abroad / within India
(iii) Through Inter-bank swap route-by using surplus rupee resources.

3. Although there is a export credit performance indicator for banks, there is a feeling that there is a shortage of forex liquidity due to risk aversion in the international markets. There was a mechanism of interest rate ceiling on both banks accessing foreign currency borrowings and for pre-shipment and post-shipment credit in foreign currency. However, in view of the restrictive nature of these ceilings in dynamic liquidity conditions in the international markets, the ceiling rate on export credit in foreign currency, which was constraining the availability of export credit in foreign currency, has been deregulated with effect from 5th May, 2012 in terms of RBI Circular No. DBOD.DIR.No.100/04.02.001/2011-12 dated 4th May, 2012. Now the banks have been allowed to freely determine their interest rates on both borrowing (from overseas banks) and lending rates of export credit in foreign currency.

Raising of forex resources by banks for export credit in foreign currency

4. In the liberalised regime of export credit in foreign currency, the following measures may be taken to make such credit available to exporters more easily and efficiently.

5. The banks which have substantial presence abroad and have foreign currency deposits available with them may arrange for borrowings abroad or seek lines of credit from foreign banks.

Short-Term Export Credit in Foreign Currency

6. The finance available in forex may be lent by banks to exporters, either directly or through other small banks which may not have forex liquidity available through the above sources. There should be special focus on making the export credit in foreign currency available to micro and small sector exporters.

7. The finance available in forex through the above sources by big banks may be lent to other small banks, which may not have forex liquidity available through the above sources, to be on-lent to exporters and such lending by big banks to small banks should not be at a mark-up of more than 10 basis points. The bigger banks and small banks may work out an institutional framework to operationalise this arrangement.

8. In case of packing credit, the borrower exporter may not be forced to take forward cover unless it is for an export credit in one convertible currency for which the export order is invoiced in another convertible currency.

Long-Term Export Credit in Foreign Currency (Term Loan)

9. Besides the Short-Term Credit, banks should also provide term loans for modernisation and equipment financing, setting up of units for exports and project exports from India.

10. It is expected that in spite of the full freedom given to decide the interest rate for export credit in foreign currency, such credit would be cheaper vis-à-vis the export credit in rupees. It is also expected that additional forex liquidity would be available through this route directly and through eventual export proceeds indirectly.

11. The Public Sector Banks and Private Sector Banks may like to take action accordingly and operationalise the above commercial arrangement for export credit in foreign currency within the next week.

12. All the exporter clients of banks should be given adequate and cost-effective export credit in foreign currency in the month of July, 2012 onwards.

13. This Department may be kept apprised of the progress in this matter.

14. This issues with the approval of **Secretary (FS)**.

Yours faithfully,

(D.D. Maheshwari)
Under Secretary to the Government of India
Tel.No.011-23748750
E-mail: usbo2-dfs@nic.in; bo2@nic.in

Copy to:

1. All Government Nominee Directors of DFS on PSBs
2. PPS to S (FS), PS to AS (FS), PS to JS (BO), PA to Dir. (BO.II)