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June 13, 2005

RBI Working Group to Review Export Credit submits Report

The Reserve Bank of India's Working Group to review a range of issues relating to export credit has submitted its report. The Working Group, based on the presentations made by the representatives of the Export Promotion Organisations, discussions and study of the statistics and relevant information made available to it, has recommended that in respect of the Rupee export credit, the present interest rate prescription by the Reserve Bank of India may continue for the time being in the interest of small and medium exporters. In respect of export credit in foreign currency, however, the Working Group has recommended that the interest rates may be raised by 25 basis points, (i.e. LIBOR + 1.00% for the first slab and additional 2% for the second slab), subject to the express condition that the banks will not levy any other charges in any manner under any name, such as, service charge, management charge, etc., except for recovery towards out-of-pocket expenses incurred. The Working Group has further pointed out that since the Reserve Bank prescribes ceiling rates and banks are at liberty to charge lesser rates of interest, taking into account the cost of funds, margin requirements, risk perception, etc., banks should try to extend export credit at rates lesser than the ceiling rates prescribed by the Reserve Bank.

The Reserve Bank of India had, in April 2005, constituted a Working Group to review Export Credit, under the Chairmanship of Shri Anand Sinha, Chief General Manager-in-Charge, Department of Banking Operations and Development, Mumbai. The Working Group also had representatives of State Bank of India, Canara Bank, The Federal Bank Ltd, Federation of Indian Exporters' Organisations (FIEO), Engineering Export Promotion Council (EEPC) and All India Association of Industries (AIAI) and a Director of the Monetary Policy Department of the Reserve Bank.. The terms of reference of the Working Group were to review:

- existing procedures for export credit;
- action taken on exporters' satisfaction survey;
- Gold Card Scheme;
- export credit for non-star exporters; and
- the current interest rate regulations in export credit.

Major recommendations of the Working Group are :

- The banks should put in place a control and reporting mechanism to ensure that the applications for export credit especially from Small and Medium Exporters are disposed of within the prescribed time frame;

- The Reserve Bank may consider getting a fresh survey conducted by an external agency regarding the satisfaction of the exporters with the services rendered by banks;
- Since the number of gold cards issued by banks is low, banks may be advised to speed up the process of issue of the cards to all the eligible exporters, especially the SME exporters and ensure that the process is completed within a period of three months;
- Banks should post nodal officers at Regional/Zonal Offices and major branches having substantial export credit for attending to the credit related problems of SME exporters;
- The banks should give priority for the foreign currency export credit requirements of exporters over foreign currency loans to non-exporter borrowers;
- Levying of other service charges linked to the amount lent is not in order and should not be done by banks;
- In view of the substantial increase in export credit in foreign currency met out of borrowings from abroad, there is a need to look into whether a prudential limit could be prescribed, up to which banks may be allowed to borrow from abroad for the purpose.

The Report of the Working Group is available on the RBI's website (www.rbi.org.in). Views on the recommendations may please be e-mailed to cgmicdbodco@rbi.org.in or may be faxed to 022-22183785 by July 10, 2005.

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Press Release: 2004-2005/1309