Summary

Chapter 13

Export Credit in Foreign Currency

Learning objectives:

1. To understand the different types of export credit in foreign currency

13.1 Pre-shipment Export Credit

Pre-shipment Credit in Foreign Currency (PCFC)

Pre-shipment credit = Any loan or advance granted by the bank to the exporter for

(a) Financing the purchase, processing, manufacturing or packing of goods prior to shipment or

(b) Working capital expenses for rendering of services on the basis of letter of credit or a confirmed and irrevocable order for export of good / services from India placed on the exporter.

Authorised dealers have been permitted to extend PCFC to exporters for domestic and imported inputs of exported goods at internationally competitive rates like LIBOR/EURO LIBOR/EURIBOR related rates of interest. The facility may be extended in one of the convertible currencies viz US Dollars, Pound Sterling, Japanese Yen, Euro etc.

Source of Funds for Banks:

(i)The foreign currency balances available with the bank in Exchange Earners Foreign Currency Accounts, Resident Foreign Currency Accounts and Foreign Currency (Non-Resident) Accounts (Banks) scheme could be utilized for financing the pre-shipment credit in foreign currency.

(ii) Banks are also permitted to utilize the foreign currency balances available under Escrow accounts and Exporters Foreign Currency accounts for the purpose.

(iii) Banks may also arrange for borrowings from abroad

(iv) In case the exporters have arranged for the suppliers credit for procuring imported inputs, the PCFC facility may be extended by the banks only for the purpose of financing domestic inputs for exports.

(v) Banks are also permitted to use foreign currency funds borrowed and also foreign currency funds generated though buy-sell swaps in the domestic forex market for granting pre-shipment credit in foreign currency subject to adherence to aggregate gap limit prescribed by RBI

Spread :

The spread for pre-shipment credit in foreign currency will be related to the international reference rate such as LIBOR/EURO LIBOR/EURIBOR (6 months).

The lending rate to exporters should not exceed 350 points from November 15,2011 to May 4, 2012.

Banks are free to determine the interest rates on export credit in foreign currency with effect from May5, 2012.

LIBOR/EURO LIBOR/EURIBOR rates are normally available for standard period of 1,2,3,6,12 months.

Banks may quote rates on the basis of standard period if PCFC is required for periods less than 6 months.

While quoting rates for non-standard periods, banks should ensure that the rate quoted is below the next upper standard period rate.

Period of Credit

- The PCFC will be available for a maximum period of 360 days.
- Any extension of the credit will be subject to the same terms and conditions as applicable for extension of rupee packing credit.

Disbursement of PCFC:

In case full amount of PCFC or part thereof is utilized to finance domestic input, banks may apply appropriate spot rate for the transaction.

Banks should take steps to stream line their procedures so that non separate sanction is needed for PCFC once the packing credit limit has been authorized and the disbursement is not delayed at the branches.

Liquidation of PCFC:

(i)General : PCFC can be liquidated out of the proceeds of export documents on their submission for discounting/rediscounting under the EBR scheme or by granting foreign currency loans. Subject to the mutual agreement between the exporter and the banker, it can also be repaid out of balances in the EEFC a/c as also the rupee resources of the exporter to the extent exports have actually taken place.

(ii) Packing credit in excess of F.O.B value

PCFC will be available only for exportable portion of the products

(iii) Substitution of order

Repayment/liquidation of PCFC could be with export documents relating to any other order covering the same or any other commodity exported by the exporter or amount of balance in the EEFC account. As far as possible the substitution of the contract should be allowed if the exporter maintains account with the same bank or it has the approval of the members of the consortium.

Cancellation/non-execution of export order:

In case of cancellation of export order or if the exporter is unable to execute the export order, it will be in order for the exporter to repay the loan together with accrued interest thereon , by purchasing foreign exchange from domestic market through the bank.

It will also be in order for the bank to remit the amount to the overseas bank, provided the PCFC was made available to exporter from line of credit obtained from that bank.

Running account facility for all commodities :

Banks are permitted to extend 'Running Account' facility under the PCFC Scheme to exporters for all commodities, on the lines of the facility available under rupee credit.

In such cases the PCFC will be marked off on the First-in-First-Out' basis.

Forward contracts:

Banks are permitted to allow an exporter to book forward contract on the basis of confirmed export order prior to availing PCFC and cancel the contract at prevailing market rates on availing of PCFC.

Banks are permitted to allow customers to seek cover in any permitted currency of their choice.

Banks should ensure compliance of basic Foreign Exchange Management requirement.

Sharing of EPC and PCFC:

The rupee export packing credit is allowed to be shared between an export order holder and the manufacturer of the goods to be exported.

Suppliers from one EOU/EPZ/SEZ unit to another EOU/EPZ/SEZ :

Banks should ensure that there is no double financing for the same transaction.

Deemed exports:

PCFC may be allowed for deemed exports only for supplies to projects financed by multilateral/bilateral agencies/funds. PCFC released for 'deemed exports' should be liquidated by grant of foreign currency loan at post-supply stage for a maximum period of 30 days or upto the date of payment by the project authorities which ever is earlier.

Refinance :

Banks will not be eligible for any refinance from RBI against export credit under the PCFC scheme.

Diamond Dollar Account (DDA) Scheme

Under the scheme of Government of India, firms and companies dealing in purchase/sale of rough or cut and polished diamonds/precious metal jewellery, plain, minakari and / or studded with/without diamond and /or other stones with a track record of at least 2 years in import/export of diamonds/coloured gemstones etc and having an average turnover of Rs.3 crores or above during the preceding three licensing years are permitted to transact their business through Diamond Dollar Accounts.

They may be allowed to open not more than five diamond dollar accounts with their banks (AD category -I)

AD Category I banks are required to submit quarertly reports to the Foreign Exchange Department, RBI

It would be in order for the banks to liquidate PCFC granted to a DDA holder by dollar proceeds from sale of rough, cu and polished diamonds by him to another DDA holder.

POST SHIPMENT EXPORT CREDIT IN FOREIGN CURRENCY:

Post-shipment credit means any loan or advance granted or any credit provided by an institution to an exporter of goods/services from India from the date of extending credit after shipment of goods / rendering of services to the date of realization of export proceeds.

Rediscounting of Export Bills Abroad Scheme (EBR)

Banks may utlise the foreign exchange resources available with them in Exchange Earners Foreign Currency Accounts, Resident Foreign Currency Accounts, Foreign Currency Residents Accounts(Banks) Scheme to discount usance bills and retain them in their portfolio without resorting to rediscounting.

Banks are also allowed to rediscount the export bills abroad at the rates linked to international rates at post-shipment stage.

Banks may arrange a "Bankers Acceptance Facility" (BAF) for rediscounting the export bills without any margin and duly covered by collateralized documents.

The exporters on their own can also arrange for themselves a line of credit with an overseas bank for discounting their export bills.

The limits granted to banks by overseas banks under BAF will not be reckoned for the purpose of borrowing limits fixed by RBI.

Eligibility criteria:

The rediscounting of export bills abroad scheme (EBR) will cover export bills with usance period upto 180 days from the date of shipment.

In case borrower is eligible to draw usance bills for periods exceeding 180 days as per RBI, Foreign Exchange Department guidelines, post-shipment credit under EBR may be provided beyond 180 days.

Banks are permitted to extend EBR facility in any convertible currency and extend the EBR facility to ACU countries.

Source of On-shore funds:

Banks may avail lines of credit from other banks in India if they are not in a position to raise loans from abroad on their own or do not have branches abroad.

Banks are also permitted to use foreign currency funds borrowed and also foreign currency funds generated through buy-sell swaps in the domestic forex market for granting facility of rediscounting of export bills abroad.

Facility for rediscounting 'with recourse' and 'without recourse':

- It is difficult to get without recourse facility from abroad under BAF or any other facility.
- Bill are generally discounted with recourse.

Accounting aspects:

The rupee equivalent of the discounted value of export bills should be utilized to liquidate the outstanding export packing credit.

Banks may apply sot rate for the transactions

The rupee equivalent of discounted amounts may be held in the banks books distinct from the existing post-shipment credit accounts.

In case of overdue bills, banks may charge 200 basis points above the rate of rediscounting of foreign exchange loan from the due date to the date of crystallization.

Interest rate as per RBI interest rate directive for post shipment credit in rupees will be applicable from the date of crystallization.

Restoration of limits and availability of export benefits such as EEFC account:

If the bills are discounted without recourse, the restoration of exporters limits and availability of export benefits may be given effect immediately on rediscounting.

In case of with recourse facility, the restoration of exporters limits will be effected only on realization of export proceeds and not on the date of discounting/rediscounting of the bills.

ECGC Cover :

In case of export bills rediscounted with recourse facility, there will not be any change in the existing coverage provided by ECGC.

In case of export bills rediscounted without recourse facility, the liability of ECGC ceases as soon as the relative bills are rediscounted.

Refinance:

Banks will not be eligible for refinance from the RBI against export bills discounted / rediscounted under the scheme.

Export credit performance:

Only bills rediscounted abroad with recourse basis and outstanding will be taken into account for the purpose of export credit performance. The bills rediscounted abroad without recourse basis will not count for the export credit performance.

Gold Card Scheme for exporters :

The Gold Card Schemed has been worked out by RBI for creditworthy exporters with good track record for easy availability of export credit on best terms. The salient features of the scheme are :

(i) Gold card holder exporters will be granted better terms of credit including rates of interest.

(ii) Applications for credit will be processed at norms simpler and under a process faster than for other exporters.

(iii) The charges schedule and fee structure in respect of services provided by banks to exporters under the scheme will be relatively lower than those provided to other exporters.

(iv) The scheme will not be applicable for exporters blacklisted by ECGC or having overdue bills in excess of 10% of the previous years turnover.

(v) In-principle limits will be sanctioned for a period of 3 years with a provision for automatic renewal.

(vi)A stand-by limit of not less than 20% of the assessed limit may be additionally made to facilitate urgent credit needs for executing sudden orders.

(vii) In case of unexpected export orders, norms for inventory may be relaxed.

(ix) Request from card holders would be processed quickly by banks within 25 days/ 15 days and 7 days for fresh applications/ renewal of limits and adhoc limits respectively.

(x) PCFC requirements of Gold card holders should be given priority over non-export borrowers with regard to granting loans out of their FCNR(B), RFC etc.