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Export Credit in Foreign Currency

Banks extend export credit in Indian Rupees as well as in foreign currency, such as Pre Shipment Credit in Foreign Currency (PCFC) and Post Shipment Credit in Foreign Currency (PSCFC), as per their own internal lending policies within the overall regulatory framework prescribed by the Reserve Bank.

2. It is observed that the export credit limits are calculated in Indian Rupees and the limit is apportioned between Rupee and foreign currency components depending upon the borrowers' requirement. While the overall export credit limits are fixed in Indian Rupees, the foreign currency component of export credit fluctuates based on the prevailing exchange rates.

3. We have also received representation from organization of exporters that on account of depreciation of Indian Rupee:

i. the unavailed foreign currency component of export credit gets reduced;

ii. the foreign currency component of export credit already availed gets revalued at a higher value in terms of Indian Rupees resulting in the exporter being asked to reduce their exposure by part payment or where the export credit limit is not fully disbursed, the available limit for the borrower reduces, depriving exporter of funds.

4. In this connection, we invite a reference to para 2.28 of the Report of the Technical Committee on Services/Facilities for Exporters (Chairman: Shri G.Padmanabhan) that the export finance limit is sanctioned by Indian banks, who revalue the foreign currency borrowings like PCFC and PSCFC on periodic (ranging from daily to monthly) basis, which results in notional excess utilization over and above the sanctioned limits in case of weakening Rupee. The Committee was of the view that denomination of facility in foreign currency would ensure that exporters are insulated from Rupee fluctuations.

5. We have examined the issue and banks are advised that they may compute the overall export credit limits of the borrowers on an on-going basis say monthly, based on the prevalent position of current assets, current liabilities and exchange rates and re-allocate limit towards export credit in foreign currency, as per the bank's own policy. This may result in increasing or decreasing the Indian Rupee equivalent of foreign currency component of export credit.

6. Alternatively, banks may denominate foreign currency (FC) component of export credit in foreign currency only with a view to ensuring that the exporters are insulated from Rupee fluctuations. The FC component of export credit, sanctioned, disbursed and outstanding will be maintained and monitored in FC. However, for translation of FC assets in the banks' book, the on-going exchange / FEDAI rates may be used.

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