

मास्टर परिपत्र
Master
Circular

विदेशी मुद्रा में निर्यात ऋण

(अक्तूबर 31, 2003 तक संशोधित)

EXPORT CREDIT IN FOREIGN CURRENCY

(Updated upto October 31, 2003)



औद्योगिक और निर्यात ऋण विभाग
Industrial & Export Credit Department

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

केन्द्रीय कार्यालय
Central Office

मुंबई
Mumbai

This master circular can be viewed and downloaded from RBI website www.rbi.org.in and further amendments, if any, could also be viewed on the Bank's website.



EXPORT CREDIT IN FOREIGN CURRENCY



Industrial & Export Credit Department

Reserve Bank of India

Central Office

Mumbai

तार : "रिज़र्व बैंक" मुंबई
Telegram : "RESERVE BANK" MUMBAI

टेलीफोन नं. : 2266 1602
Telephone

फैक्स : 022-2266 0407
Fax

Rbinet : bomiecd

ई-मेल का पता /E-mail address
rbibiecd@giasbmo1.vsnl.net.in

भारतीय रिज़र्व बैंक

औद्योगिक और निर्यात ऋण विभाग

केन्द्रीय कार्यालय,

केन्द्रीय कार्यालय भवन,

पोस्ट बैग - 10030, मुंबई - 400 001

RESERVE BANK OF INDIA

INDUSTRIAL & EXPORT CREDIT DEPARTMENT

CENTRAL OFFICE,

CENTRAL OFFICE BUILDING,

POST BAG - 10030, MUMBAI - 400 001

IECD No.7/04.02.02/2003-04

July 1, 2003 Ashadha 10, 1925 (Saka)

The Chairmen/Chief Executives of all Commercial Banks

Dear Sir,

Master Circular on EXPORT CREDIT IN FOREIGN CURRENCY

As you are aware, in order to have all current instructions on a subject at one place, the Reserve Bank of India had issued a Master Circular IECD No.5/04.02.02/2002-03 dated July 30, 2002 on the captioned subject, which is now updated as on 1st July 2003. A copy of the revised Master Circular is enclosed. It may be noted that the Master Circular consolidates and updates all the instructions contained in the circulars listed in the Appendix, in so far they relate to providing export credit in foreign currency by banks to the borrowers.

Yours faithfully,

(Y. D. Rao)

General Manager

Encls.: As above

Master Circular

EXPORT CREDIT IN FOREIGN CURRENCY

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1. PRE-SHIPMENT EXPORT CREDIT

1.1 Pre-shipment Credit in Foreign Currency (PCFC)

1.1.1 *Definition*

'**Pre-shipment credit**' means any loan or advance granted or any other credit provided by a bank to an exporter for financing the **purchase, processing, manufacturing or packing of goods** prior to shipment, on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter or some other person, **unless lodgement** of export orders or letter of credit with the bank **has been waived**.

1.1.2 *General*

With a view to making credit available to exporters at internationally competitive rates, authorised dealers have been permitted to extend Pre-shipment Credit in Foreign Currency (PCFC) to exporters for domestic and imported inputs of exported goods at LIBOR/EURO LIBOR/EURIBOR related rates of interest as detailed below.

1.1.3 *Scheme*

(i) The scheme is an additional window for providing pre-shipment credit to Indian exporters at internationally competitive rates of interest. It will be applicable to only cash exports.

(ii) The exporter will have the following options to avail of export finance:

(a) to avail of pre-shipment credit in rupees and then the post-shipment credit either in rupees or discounting/ rediscounting of export bills under EBR Scheme mentioned in paragraph 2.2.

(b) to avail of pre-shipment credit in foreign currency and discount/rediscounting of the export bills in foreign currency under EBR Scheme.

(c) to avail of pre-shipment credit in rupees and then convert drawals into PCFC at the discretion of the bank.

(iii) Choice of currency

(a) The facility may be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro, etc.

(b) To enable the exporters to have operational flexibility, it will be in order for banks to extend PCFC in one convertible currency in respect of an export order invoiced in another convertible currency. *For example*, an exporter

can avail of PCFC in US Dollar against an export order invoiced in Euro. The risk and cost of cross currency transaction will be that of the exporter.

(iv) Banks are permitted to extend PCFC for exports to ACU countries.

(v) The applicable benefit to the exporters will accrue only after the realisation of the export bills or when the resultant export bills are rediscounted on 'without recourse' basis.

1.1.4 *Source of Funds for Banks*

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

(ii) Banks are also permitted to utilise the foreign currency balances available under Escrow Accounts and Exporters Foreign Currency Accounts for the purpose, subject to ensuring that the requirements of funds by the account holders for permissible transactions are met and the limit prescribed for maintaining maximum balance in the account under broad based facility is not exceeded.

(iii) Foreign currency lines of credit

(a) In addition, banks may arrange for '**lines of credit**' from abroad. Banks may negotiate lines of credit with overseas banks for the purpose of grant of PCFC to exporters without the prior approval of the RBI, provided the rate of interest on the line of credit does not exceed 0.75 percent over six months LIBOR/EURO LIBOR/EURIBOR.

(b) Banks should draw on the line of credit arranged only to the extent of loans granted by them to the exporters under the PCFC. However, where the overseas bank making available the line of credit stipulates a minimum amount for drawals which should not be very large, the small unutilised portion may be managed by the bank within its foreign exchange position and Aggregate Gap Limit (AGL) limit. Similarly, any pre-payment by the exporter may also be taken within the foreign exchange position and AGL limits.

(c) Banks may avail of lines of credit from **other banks in India** if they are not in a position to raise loans from abroad on their own, subject to the condition that ultimate cost to the exporter should not exceed 0.75 percent above LIBOR/EURO LIBOR/EURIBOR, provided the bank

does not have a branch abroad. The spread between the borrowing and lending bank is left to the discretion of the banks concerned.

(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 in terms of para 4.2(i) of Notification No. FEMA.3/2000 RB dated May 3, 2000 as also foreign currency funds generated through buy-sell swaps in the domestic forex market for granting Pre-shipment Credit in Foreign Currency (PCFC) subject to adherence to Aggregate Gap Limit (AGL) approved by RBI (ECD).

1.1.5 Spread

(i) 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).

(ii) The lending rate to the exporter should not exceed 0.75 percent over LIBOR/EURO LIBOR/EURIBOR, excluding withholding tax.

(iii) LIBOR/EURO LIBOR/EURIBOR rates are normally available for standard period of 1, 2, 3, 6 and 12 months. Banks may quote rates on the basis of standard period if PCFC is required for periods less than 6 months. However, while quoting rates for non-standard period, banks should ensure that the rate quoted is below the next upper standard period rate.

(iv) Banks may collect interest on PCFC at quarterly intervals against sale of foreign currency or out of balances in EEFC accounts or out of discounted value of the export bills if PCFC is liquidated within the quarterly rest for collection of interest.

1.1.6 Period of Credit

(i) The PCFC will be available as in the case of rupee credit initially for a maximum period of 180 days; any extension of the credit will be subject to the same terms and conditions as applicable for extension of rupee packing credit and it will also have additional interest cost of 2 percent above the rate for the initial period of 180 days prevailing at the time of extension.

(ii) Further extension will be subject to the terms and conditions fixed by the bank concerned and if no export takes place within 360 days, the PCFC will be adjusted at T.T. selling rate for the currency concerned. In such cases, banks can arrange to remit foreign exchange to repay the loan or line of credit raised abroad and interest without prior permission of RBI.

(iii) For extension of PCFC within 180 days, banks are permitted to extend on a fixed roll over basis of the principal amount at the applicable LIBOR/EURO LIBOR/EURIBOR rate for extended period plus permitted margin (0.75 percent over LIBOR/EURO LIBOR/EURIBOR).

1.1.7 *Disbursement of PCFC*

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

(ii) As regards the minimum lots of transactions, it is left to the operational convenience of banks to stipulate the minimum lots taking into account the availability of their own resources. However, while fixing the minimum lot, banks may take into account the needs of their small customers also.

(iii) Banks should take steps to streamline their procedures so that no separate sanction is needed for PCFC once the packing credit limit has been authorised and the disbursement is not delayed at the branches.

1.1.8 *Liquidation of PCFC Account*

(i) General

PCFC can be liquidated out of proceeds of export documents on their submission for discounting/rediscounting under the EBR Scheme detailed in para 2.2 or by grant of foreign currency loans (DP Bills). Subject to mutual agreement between the exporter and the banker it can also be repaid / prepaid out of balances in EEFC A/c as also from rupee resources of the exporter to the extent exports have actually taken place.

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

In certain cases, (viz. agro based products like HPS Groundnut, defatted & deoiled cakes, tobacco, pepper, cardamom, cashew nuts, etc.) where packing credit required is in excess of FOB value, PCFC would be available only for exportable portion of the produce.

(iii) Substitution of order/commodity

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.** While allowing substitution of contract in this way, banks should ensure that it is commercially necessary and unavoidable. Banks should also satisfy about the valid reasons as to why PCFC extended for shipment of a particular commodity cannot be liquidated in the normal method. As far as possible, the

substitution of contract should be allowed if the exporter maintains account with the same bank or it has the approval of the members of the consortium, if any.

1.1.9 Cancellation/Non-execution of Export Order

- (i) In case of cancellation of the export order for which the PCFC was availed of by the exporter from the bank, or if the exporter is unable to execute the export order for any reason, it will be in order for the exporter to repay the loan together with accrued interest thereon, by purchasing foreign exchange (principal + interest) from domestic market through the bank. In such cases, interest will be payable on the rupee equivalent of principal amount at the rate applicable to '**Export Credit Not Otherwise Specified**' (ECNOS) at pre-shipment stage plus a penal rate of interest to be decided by the bank from the date of advance after adjustment of interest of PCFC already recovered. Banks are free to decide the rate of interest for ECNOS at pre-shipment stage, subject to PLR and spread guidelines.
- (ii) It will also be in order for the banks to remit the amount to the overseas bank, provided the PCFC was made available to exporter from the line of credit obtained from that bank.
- (iii) Banks may extend PCFC to such exporters subsequently, after ensuring that the earlier cancellation of PCFC was due to genuine reasons.

1.1.10 Running Account Facility for All Commodities

- (i) Banks are permitted to extend the 'Running Account' facility under the PCFC Scheme to exporters for all commodities, on the lines of the facility available under rupee credit, subject to the following conditions:
 - (a) The facility may be extended provided the need for 'Running Account' facility has been established by the exporters to the satisfaction of the bank.
 - (b) Banks may extend the facility only to those exporters whose track record has been good.
 - (c) In all cases, where Pre-shipment Credit 'Running Account' facility has been extended, the L/Cs or firm orders should be produced within a reasonable period of time.
 - (d) The PCFC will be marked-off on the 'First-in-First-out' basis.
 - (e) PCFC can also be marked-off with proceeds of export documents against which no PCFC has been drawn by the exporter.

(ii) Banks should closely monitor the production of firm order or L/C subsequently by exporters and also the end-use of funds. It has to be ensured that no diversion of funds is made for domestic use. In case of non-utilisation of PCFC drawals for export purposes, the penal provisions stated above should be made applicable and the 'Running Account' facility should be withdrawn for the concerned exporter.

(iii) Banks are required to take any prepayment by the exporter under PCFC scheme within their foreign exchange position and Aggregate Gap Limit (AGL) as indicated in paragraph 1.1.4 (iii) (b) above. With the extension of 'Running Account' facility, mismatches are likely to occur for a longer period involving cost to the banks. Banks may charge the exporters the funding cost, if any, involved in absorbing mismatches in respect of the prepayment beyond one month period.

1.1.11 *Forward Contracts*

(i) In terms of paragraph 1.1.3 (iii) above, PCFC can be extended in any of the convertible currencies in respect of an export order invoiced in another convertible currency. Banks are also permitted to allow an exporter to book forward contract on the basis of confirmed export order prior to availing of PCFC and cancel the contract (for portion of drawal used for imported inputs) at prevailing market rates on availing of PCFC.

(ii) Banks are permitted to allow customers to seek cover in any permitted currency of their choice which is actively traded in the market, subject to ensuring that the customer is exposed to exchange risk in a permitted currency in the underlying transaction.

(iii) While allowing forward contracts under the scheme, banks may ensure compliance of the basic Exchange Control requirement are that the customer is exposed to an exchange risk in the underlying transaction at different stages of the export finance.

1.1.12 *Sharing of EPC under PCFC*

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

(ii) Similarly, banks may extend PCFC also to the manufacturer on the basis of the disclaimer from the export order holder through his bank. PCFC granted to the manufacturer can be repaid by transfer of foreign currency from the export order holder by availing of PCFC or by discounting of bills. Banks should ensure that no double financing is involved in the transaction

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Type of Credit		Interest Rate
		(percent p.a.)
(i)	<i>Pre-shipment Credit</i>	
	(a) Upto 180 days	Not exceeding 0.75% over LIBOR/EURO LIBOR/ EURIBOR
	(b) Beyond 180 days and upto 360 days	Rate for initial period of 180 days prevailing at the time of extension plus 2.0 percentage points i.e. (i) (a) above + 2.0
(ii)	<i>Post-shipment Credit</i>	
	(a) On demand bills for transit period (as specified by FEDAI)	Not exceeding 0.75% over LIBOR/EURO LIBOR/ EURIBOR
	(b) Against usance bills (credit for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable)	
	Upto 6 months from the date of shipment	Not exceeding 0.75% over LIBOR/EURO LIBOR/ EURIBOR
	(c) Export bills (demand or usance) realised after due date but upto date of crystallisation	Rate for (ii) (b) above plus 2.0 percentage points
(iii)	<i>Export Credit Not Otherwise Specified (ECNOS)</i>	
	(a) Pre-shipment credit	Free [@]
	(b) Post-shipment credit	Free [@]

[@] Banks are free to decide the rate of interest being rupee credit rate keeping in view the PLR and spread guidelines.

Master Circular
EXPORT CREDIT IN FOREIGN CURRENCY

List of Circulars consolidated by the Master Circular

No.	Circular No.	Date	Subject
1.	IECD No. 12/04.02.02/2002-03	31.1.03	Export Credit in Foreign Currency-Sources of funds
2.	IECD No. 9/04.02.02/2002-03	31.10.02	Export Credit – Liquidation of Packing Credit and conversion of drawals under rupee packing credit into PCFC.
3.	IECD.No.21/04.02.01/2001-02	29.04.2002	Interest Rates on Export Credit in Foreign Currency
4.	IECD.No.14/04.02.01/2000-01	19.04.2001	Interest Rates on Export Credit in Foreign Currency
5.	IECD.No.13/04.02.02/1999-2000	17.05.2000	Pre-shipment Credit in Foreign Currency(PCFC) to Exporters Operating under Diamond Dollar Account Scheme
6.	IECD.No.47/3840/04.02.01/97-98	11.06.98	Export Credit in Foreign Currency
7.	IECD.No.28/04.02.01/96-97	17.04.97	Extension of Facility of Pre-shipment Credit in Foreign Currency (PCFC)
8.	IECD.No.22/04.02.01/95-96	29.02.96	Export Credit – PCFC
9.	IECD.No.15/04.02.15/95-96	22.12.95	Exports to Asian Clearing Union Countries - Granting of Export Credit in Foreign Currency under Pre-shipment Credit in Foreign Currency (PCFC), and Export Bills Rediscounting Scheme (EBR)
10.	IECD.No.EFD.40/04.02.15/94-95	18.04.95	Pre-shipment Credit in Foreign Currency(PCFC) - Forward Exchange Cover
11.	IECD.No.30/04.02.02/94-95	14.12.94	Relaxations in the Area of Export Packing Credit
12.	IECD.No.27/04.02.15/94-95	14.11.94	Sharing of Packing Credit under PCFC
13.	IECD.No.13/04.02.02/94-95	26.09.94	Pre-shipment Credit in Foreign Currency(PCFC) Scheme – Supplies from one EOU/EPZ Unit to another EOU/EPZ Unit
14.	IECD.No.10/04.02.15/94-95	03.09.94	Export Financing in Foreign Currencies
15.	IECD.No.EFD.43/04.02.15/93-94	18.05.94	Pre-shipment Credit in Foreign Currency(PCFC) - Extension of 'Running Account' Facility
16.	IECD.No.EFD.37/04.02.15/93-94	30.03.94	Pre-shipment Credit in Foreign Currency(PCFC) - Clarifications/Relaxations
17.	IECD.No.EFD.32/04.02.11/93-94	03.03.94	Rediscount of Export Bills Abroad and Pre-shipment Credit in Foreign Currency (PCFC) - Withholding Tax
18.	IECD.No.EFD.31/04.02.15/93-94	03.03.94	Pre-shipment Credit in Foreign Currency(PCFC) - Extension of 'Running Account' Facility for Export of Diamonds
19.	IECD.No.EFD.30/04.02.15/93-94	28.02.94	Pre-shipment Credit in Foreign Currency(PCFC) – Clarifications
20.	IECD.No.EFD.21/04.02.15/93-94	08.11.93	Pre-shipment Credit in Foreign Currency (PCFC)
21.	IECD.No.EFD.14/04.02.11/93-94	06.10.93	Rediscounting of Export Bills Abroad

Master Circular

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