

## Chairman's Pen



*My dear fellow exporters,*

You are aware that Interest Subvention Scheme has been discontinued on March 31, 2011. It is extremely important for the continuation of Interest Subvention for 2011-12 given that the prime lending rates is now in the range of 13% to 14%. If the interest subvention goes, the MSME sector will be paying anything between 15%-18% for their Rupee Export Credit.

It may be mentioned that prior to the base rate system, all exporters used to get a 2% discount on Rupee Export Credit, which was further discounted for by an interest subvention of 2% for certain sectors. It was felt that since the Base rate was essentially a floor rate, there was no need for the general discount of 2% and hence this was discontinued with effect from June 30, 2010. Now that the Base Rate itself has gone up considerably, a general interest rate subvention of 2% for Rupee export credit is an indispensable pre-requisite.

I may also add that prior to the Benchmark Primary Lending Rate System, the RBI followed a policy of Refinancing of Export Credit to banks at the Repo Rate plus a certain margin. This system could be restarted with the RBI refinancing banks on export credit disbursed by them at Repo Rate plus 100 basis points.

The RBI has a policy wherein exporters can take foreign currency loan for export credit. This is known as Packing Credit in Foreign Currency (PCFC) where the interest rate charged is Libor plus 350 basis points. Unfortunately, banks are unable to provide PCFC as they claim that there is an acute shortage of Foreign Currency Credit. This seems rather strange given that India has a foreign exchange reserve of nearly USD 300 billion.

There is also the need to lower the cost of credit for working capital requirement given the RBI's tight money policy. With inflationary pressures unlikely to ebb in the near future, the high cost of credit will be an extremely important determinant of the external competitiveness of the Indian engineering sector.

We also need low cost credit for investment in capital goods and equipments. If possible we need credit in foreign currency at libor plus 2% so that the MSME sector can move up the value chain through capital goods investment.

Many of the tiny units do not have access to credit because of inadequate collaterals. There are schemes in place for the MSME sector formulated by RBI providing collateral free lending up to Rs 1 crore. But these schemes are not implemented at the grassroots/branch level of banks. We need to look at other measures of funding which does not stress on collaterals.

I do hope that the Government will extend the Interest Subvention Scheme for one more year with effect from April 1, 2011.

*Yours sincerely,*

A handwritten signature in black ink, appearing to read 'Aman Chadha'. The signature is stylized and cursive.

(AMAN CHADHA)