

LETTER TO EDITOR
Export Finance

IN the note "Dear Money and Export Finance" in your issue of April 3, 1965 there is a reference to what I said at the Seminar on Engineering Goods Exports in Bombay. As the reference does not adequately represent what I stated, I should be greatly obliged if you would kindly publish this letter, so that the position may be correctly known to your readers.

What I said in effect was as follows:

(1) As a general principle, one should remember that capital is a scarce resource in the economy. Trying to provide it at a cheap rate only encourages its use in an indiscriminate manner and leads to inflation, which in turn affects exports. The best assistance to exports that a central bank can give is to try and maintain a reasonable degree of stability in the economy. This I said was the primary responsibility of the Bank.

(2) I did not rule out cheaper credit facilities for exports and also central bank assistance for such purpose. In fact, I drew attention to the facilities which the Reserve Bank and the Industrial Development Bank have provided (a) through the Rupee Export Bills Scheme, and (b) Through the medium-term export refinancing scheme. It is to be noted in particular that the latter scheme which provides concessional finance continues to do so at the same rate as before, although rates in other sectors have gone up. I thought that, this was of particular interest to the engineering goods exporters. I also added that there were various technical aspects to the other suggestions in respect of pre-shipment finance and post-shipment finance where the export bills are drawn in other currencies which needed examination and that this was being done.

In view of this, the comment in your note "But instead of accepting these suggestions, the authorities seem to have done the opposite" does not appear to be correct.


The point made in the note that "economic and efficient use of money would certainly call for its employment in export finance" is certainly a very valid one. It is one which has to be constantly borne in mind not only by the Reserve Bank but all the credit providing institutions of whom the banks form a major sector. As I stated at the Seminar, the Reserve Bank has always urged the banks to regard exports as a priority sector in their cre-

dit operations in view of the importance of exports to the economy. One important way in which the banks could assist exporters is by making a distinction between the rates charged for loans to production for the home and production for the export market as is done in other countries. However, as was pointed out in the Chabani Committee's Report, under the 'Inter-Bank Agreement' no such distinction is made and the minimum

lending rate is fixed at 2 per cent above the Bank rate irrespective of whether the finance is required for domestic needs or whether it is pre-shipment export finance. As I mentioned at the Seminar, apparently there has been no move so far in regard to this matter.

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Bombay.
April 10.

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