

Exporters urge RBI to reconsider ban on LoUs

Want existing LoUs to stay valid, and fresh ones to be allowed with safeguards

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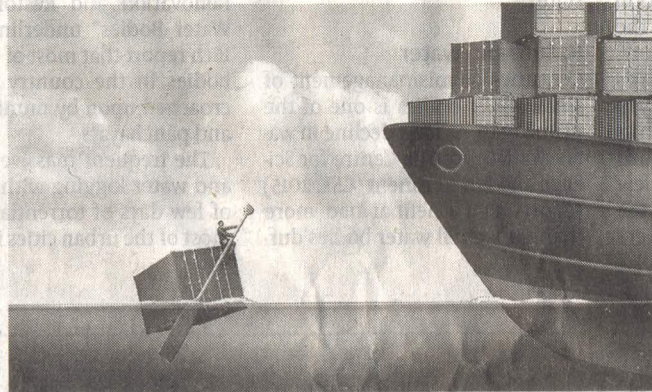
New Delhi, March 21

Exporters have urged the Reserve Bank of India to reconsider the ban on letters of undertaking (LoUs), which was triggered by the \$2-billion fraud at the Punjab National Bank, as it was causing distress to players in sectors such as textiles and leather, and pushing up their operating costs.

"With some banks deciding to cancel LoUs that have already been issued, the situation has become worse as exporters do not have enough cash to pay upfront for their imports," said Ajay Sahai, Director-General, FIEO.

An LoU is a guarantee given by one bank to another to repay a loan on behalf of a client and which allows the client to raise short-term credit to mainly pay for an import.

FIEO, an umbrella body representing a number of export organisations, has written to the RBI requesting its intervention in



Many exporters don't have enough cash to pay for imports upfront ISTOCK

extending help to exporters hit by the move to ban LoUs.

In the letter, FIEO has asked the RBI to consider introducing LoUs with safeguards as alternative instruments were increasing the operating cost of exporters by up to 3 per cent.

Bankers' Check

The PNB aftermath

It also stressed that existing LoUs or LoCs (letters of comfort) should be allowed to live their normal validity as some banks have asked exporters to deposit equivalent amount in lieu of the instruments.

"Although the RBI banned issuing of fresh LoUs, some banks have gone an extra mile and have cancelled LoUs already issued. Where

LoUs have validity till, let us say September 2018, banks have cancelled them and asked the exporter to deposit the money in cash.

"This has created a huge problem as the exporter would be expecting to make the payment only in September and it is not possible for him to make an upfront payment at once," Sahai said.

While a handful of sectors using LoUs such as textiles, leather, and gems and jewellery have been considerably hit by the ban, a majority of small exporters have not been affected by the RBI's decision as they mostly use Letter of Credit and bank guarantee for their business.

Will not hurt jewellers in Bengal

OUR BUREAU

Kolkata, March 21

The Reserve Bank of India's decision to ban the issuance of letters of undertaking (LoUs) or letters of comfort (LoCs) as a trade finance instrument is not likely to have any impact on the gem and jewellery industry in West Bengal.

According to Pankaj Parekh, former Vice-Chairman of GJPEC, and Regional Chairman, India Bullion and Jewellery Association, the instrument is used by some jewellers primarily for imports. However, a majority of the jewellers in Bengal manufacture their own jewellery and there is hardly any import component.

"There will be no impact of the ban on jewellers in this region," Parekh told newsmen on the sidelines of a press conference to announce a three-day international jewellery exhibition in Kolkata starting January 12, 2019.

However, bank lending to the gem and jewellery industry may be 'squeezed' in the



Pankaj Parekh, Regional Chairman, India Bullion and Jewellery Association

DEBASISH BHADURI

wake of the almost ₹13,000-crore scam involving billionaire diamondaire Nirav Modi. Banks have already started demanding higher collateral from existing borrowers, he said.

"They are wanting more collateral or asking us to reduce the loan amount," he said.

But this would hurt only those entities which are highly dependent on bank finance. In West Bengal, a majority of the jewellers are small and medium-sized entities, with only 10-15 per cent exposure to bank finance, he pointed out.