SPEECH

SPEEDY PAYMENT OF REMITTANCES

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I have great pleasure in inaugurating SBI's Guaranteed Speed Payment Scheme under which beneficiaries will be able to receive funds within two working days from the date of remittance from the Middle East. This is an important step in our efforts to speed up the transfer of remittances.

2. The two main factors which encourage remitters to use the unofficial or the havala route have been the level of exchange rate and the speed with which funds are transmitted. The recently introduced Unified Exchange Rate System has taken care of the first problem. It is equally important to address the second problem if we are to achieve the full benefit of the new exchange rate system. The question of delays has been brought up with embarrassing regularity during the interaction with non-residents especially those located in the Middle East. We have no doubt taken several measures in the recent period to improve the system of transfer of inward remittances. Banks at their discretion can now pay immediately inward remittances up to US $ 1000. They have also been permitted to issue FCNR deposit receipts on the date of receipt of the foreign currency instrument without waiting for its receipt in India. The private exchange houses have been allowed to issue drafts with printed denomination payable at the branches of all authorised dealers.

3. SBI's Guaranteed Speed Payment Scheme is yet another effort in the direction to speed up NRI remittances. The scheme is being introduced at the SBI managed companies in the Middle East and will cover remittances to 24 select branches of SBI in India. The scheme guarantees payments within two days with penal interest of 10 per cent payable for any period of delay. I am sure that as SBI gathers experience in the working of the scheme, more branches will be added to the present number of 24. SBI Guarantee Speed Payment Scheme is a scheme which can be well emulated by other banks. It is time that in general banks seriously began working towards a gradual changeover to electronic payment system which can result in quick transfer of funds.

Role of Private Transfers

4. Funds which flow from non-resident Indians take on two forms. First, there is the flow of funds which are mainly in the nature of support for family maintenance and personal gifts. Second, there is flow of funds into various forms of bank deposits. While the remittances for family maintenance are regarded as private transfers, going into the current account of the balance of payments, the funds flowing into deposit accounts are treated as part of the capital account receipts. Private transfer receipts have been an important source of support to our balance of payments, offsetting about 30 per cent of the trade deficit.

5. In 1991-92, private transfer receipts were around US $ 2.7 billion, inclusive of inflows under the Immunity Scheme. During 1992-93, private transfer receipts are estimated to be US $ 2.2 billion, although some remittances may have taken the form of deposit inflows to benefit their conversion at the market rate. While the data for the first few months of 1993-94 are not yet available, there is evidence to indicate that these transfer receipts are on the rise. With greater exchange rate flexibility and the accompanying liberalisation of the exchange rate system, the expectations are that the flow of private remittances, including private capital flows, would respond positively. This would result in the shrinking of the unofficial market. As I had mentioned earlier, in the task of improving the flow of private remittances, an improved delivery

* Inaugural remarks by Dr. C. Rangarajan, Governor, at the inauguration of the 'Guaranteed Speed Payment Scheme' at the State Bank of India, NRI Branch, Bombay, on September 01, 1993.

system ensuring speedy transfer of funds, has an important role to play. I am indeed happy that SBI has taken the lead to launch a scheme that will fulfil this purpose.

The Recent Exchange Rate Trends and Reserve Movements

I would like to take this occasion to make a few remarks on the exchange rate system which has undergone significant changes in the recent period.

6. Immediately after the downward adjustment of the Indian rupee in July 1991, which became necessary given the precarious condition of our balance of payments at that time, the Exim Scrip scheme was introduced as an instrument to equilibrate the demand for and supply of foreign exchange. Subsequently, this system was modified and a new system popularly known as partial convertibility which in effect was a dual exchange market system was introduced. The new system benefitted not only the export of goods but also of services. While the system worked reasonably well, with free market rate premium steady at around 17 per cent over the official exchange rate, it also implied that exporters and other foreign exchange earners were indirectly subsidising essential imports. In March this year, the dual exchange rate system was replaced by the Unified Exchange Rate System, under which the exchange rate came to be fully determined by the forces of supply and demand for foreign exchange. Under the new system, exchange rate will play an important role in equilibrating demand and supply, The period of first six months, since its introduction, has seen the system function remarkably well. The average reference rate of the rupee during March was Rs. 31.53 per dollar. The rate has strengthened since then and for the past six weeks has remained steady at the level of Rs. 31.37 per dollar. There has been no similar period in recent history when the rupee has remained so stable over a period of more than six months. This reflects not only the improvement in the economic fundamentals but also the guidance provided by RBI to the foreign exchange market.

7. In fact, the period has been marked by a fairly substantial purchase of foreign exchange by RBI. I must however clarify that it is not the intention of RBI to peg the currency at any pre-determined level. If the rupee depreciates because of the fundamentals, it would be imprudent to defend the value of the rupee by losing our foreign exchange reserves. It may however be possible and desirable to smoothen short term volatility in the country's foreign exchange market. The fairly large purchases made by RBI during the last six months may be regarded as passive intervention. Whenever there has been excess supply of dollars in the market at the ruling rate, the authorised dealers sell the surplus to RBI.

8. Since April 1993, RBI has bought US $ 3.6 billion while it has sold US $ 1.3 billion. The net purchases have thus amounted to around US $ 2.3 billion. But the net purchases have also enabled the RBI to improve the quality of reserves. The reserves today are composed of more stable elements. The volatile components, such as swaps and deposits in FCBOD scheme have declined substantially from their levels as at the end of March 1993. Also during this period, the SBI's short-term liabilities to its foreign branches have witnessed a substantial decline. It is therefore gratifying that even after meeting all these liabilities, we have been able to add substantially to our reserves. As of today, the foreign exchange reserves have crossed US $ 7.2 billion.

Conclusion

9. The maintenance of a stable exchange rate system over time in India will greatly depend on achieving a sustainable balance between exports of goods and services and imports. In this, the exchange rate itself will play an equilibrating role. Maintenance of a reasonably stable exchange rate however calls for a stable domestic price situation. As I mentioned earlier, private transfer receipts have an important role to play in offsetting India's trade deficit. In the task of augmenting private transfer receipts, scheme such as Guaranteed Speed Payment Scheme will indeed play a significant part. I, therefore congratulate the SBI on the introduction of this innovative scheme and I am certain that it will result in an expanded flow of funds from the Middle East.