Report of the IDF Project on Short- Term Debt

September 2000

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Contents		Page

	Contents	Page
	Systems in Select Countries	15
	Italy	15
	Belgium/Luxembourg	16
	Norway	16
	Croatia	16
	France	16
	Germany	16
	Sweden	17
	Overall Assessment	17
Chapter IV	**Capturing Short-term Credit: Evaluation of Alternate Systems**	18
	Relevance of the IMF's Manuals to India	18
	Appropriate System for India	19
	Existing Bank Reporting System	19
	Periodic Bank Reporting for L/C based Credits	20
	Periodic Surveys of Importers	21
	Information Available in A1 Forms	23
	Census on India's Foreign Liabilities and Assets	24
	Using the BIS and the OECD Data	24
	Overall Assessment	25
Chapter V	**FII Investment in Debt Securities**	**26**
	The 100 per cent Debt Route	26
	Data Reporting: Current Mechanism	26
	Data Reporting: Requirements	27
Chapter VI	**Computerisation of Short-term Debt**	**28**
	CS-DRMS Package	28
	Database on CS-DRMS	29
	Components of External Debt not on CS-DRMS	29

Contents	Page

IDF PROJECT ON SHORT TERM DEBT:

EXECUTIVE SUMMARY

The East Asian crisis has highlighted the need to monitor debt by residual maturity. However, the present data on short-term debt of India have certain weaknesses on account of definition and coverage. In order to strengthen the database on India's short-term debt, a Group with support under the Institutional Development Fund (IDF) grant facility of the World Bank was constituted with membership from the Ministry of Finance, major commercial banks and Reserve Bank of India. The Group, therefore, undertook an assessment of the various external transactions of short-term nature for their possible inclusion under short-term debt keeping in view the international best practices. The major recommendations of the Group are as follows:

- In computation of short-term debt, the national authorities (RBI/MOF) should follow the international best practices with respect to definition and coverage. Since the data released by international agencies, particularly on short-term debt, could have a market impact, periodic efforts should be made by national authorities to reconcile the different databases once the official database is put on the same conceptual framework as that of the international agencies.

- India's external debt statistics should capture information on suppliers' credits in a comprehensive manner. In order to capture the entire amount of suppliers' credits, the existing floppy based R-Return reporting may be amended to include an additional field on date of shipment. The difference in the period between the date of shipment and date of payment could be taken as a measure of the period for which trade credits are outstanding. This method could be supplemented by other existing data sources. The fortnightly reporting system under which major banks provide data, inter alia, on (a) outstanding L/Cs (sight as also usance) and (b) outstanding import bills (under L/C as also collection) pending payment by customers to the Department of External Investments and Operations (DEIO) in the Reserve Bank could be extended to all banks on a monthly basis. In addition, surveys on trade finance aimed at major import industries could also provide useful information.

- The outstanding balances under overseas lines of credits obtained by banks, as and when the scheme is activated, may be included in the external debt statistics.

- Given their transitory nature, debits in nostro account and credits in vostro account need not be reckoned towards a country's external debt.

- In the case of FCCBs, the portion of FCCB due for amortisation within the next 12 months should be identified as short-term debt while at the same time the portion getting converted in to equity needs to be adjusted from the external debt.

- Data on FII investment separately into debt and equity as also maturity profile and market value of debt need to be captured.

- Given the versatility of the Commonwealth Secretariat - Debt Recording Management System (CS-DRMS), it would be useful to have all components of debt data on the CS-DRMS including data on suppliers' credits of over 180 days and buyers' credits of all maturities being maintained at present in ECD, Central Office. For this purpose, the ECD may forward the ECB-4 and ECB-5 returns to DESACS for data entry and for preparation of estimates. As the short-term outstanding balances are subject to an overall cap, DESACS may provide estimates to ECD through DEAP at regular intervals to enable ECD to effectively monitor the overall ceilings while giving fresh approvals.

- Data availability on residual maturity is essentially a function of the reporting arrangements as well as the degree and quality of computerisation. A major component of external debt on which residual maturity details are not available is NRI deposits. This issue is being addressed by another project. At present, data reporting exists for most of the components except suppliers' credits of up to 180 days and FII investment in debt securities. For these components, recommendations on reporting arrangements have been made in the Report. Data for various components should also be maintained on the CS-DRMS at DESACS. Information on FII investments should be provided by SEBI. Once these arrangements are in place, the generation of residual maturity estimates in case of all components of external debt would be feasible.

Chapter I

Introduction and Overview

The East Asian crisis has drawn focussed attention to short term debt as one of the important factors contributing to the crisis. In the definition of short-term debt, while until recently, original maturity concept (i.e., the period from commitment or disbursement to final repayment of the loan) was the accepted practice, the events in Asia have highlighted the need to monitor debt by residual maturity (i.e., the time remaining until the final repayment of the loan). Short term debt by residual maturity will therefore comprise (i) medium and long term debt by original maturity falling due within the twelve month period following a reference date and (ii) debt with original maturity of up to one year with relation to the reference date. While the short term debt by residual maturity, by definition, would be higher than that based on the original maturity concept, what is more important, therefore, is the divergence between these two sets of statistics. This divergence would depend upon the composition of a country's external debt, viz. the share of multilateral/bilateral assistance, the share of the loans from the banking sector abroad, the nature of bonds/ securities (whether put/call options exist) and the operational freedom given to banks to raise resources from abroad.

1.2 These characteristics make India somewhat different from the other East Asian countries. In India, almost one-half of external debt is from multilateral/bilateral sources with long maturity. Moreover, options on bonds and the banking sector's ability to borrow abroad are subject to prudential regulation. However, the concept of residual maturity would attain critical importance as the dynamics of policy changes allowing the market players more freedom will have impact on the composition of debt changes over the medium-term.

1.3 Reflecting the cautious policy approach to short-term debt, India's short-term debt, by original maturity, has declined significantly from US $ 8.5 billion at end-March 1991 to US $ 4.0 billion by end-March 2000. As a result, short-term debt, as a proportion of total external debt, reduced sharply from 10 per cent to 4 per cent over the same period. The ratio of short-term debt to foreign exchange reserves, which is a critical indicator of liquidity, fell from almost 150 per cent at end-March 1991 to less than 20 per cent at end-March 1998 and further to 11 per cent at end-March 2000 (Table 1 and Chart 1).

1.4 Reflecting the growing importance of data on short-term debt by residual maturity, the authorities have made efforts to provide such data. For instance, according to the Ministry of Finance's India's External Debt - A Status Report, short-term debt by residual maturity declined to US $ 10.7 billion at end-December 1999 from US $ 11.2 billion at end-March 1999 and US $ 13.6 billion at end-March 1997.

1.5 However, the present data on short-term debt contain certain weaknesses on account of definition and coverage. At present, short-term debt in India includes suppliers' credits of more than 180 days and up to 365 days, buyers' credits of all maturities up to 365 days and the short-term component (maturity of up to one year) of NRI deposits. A notable exclusion from short-term debt has, therefore, been suppliers' credits of up to 180 days. Moreover, information on NRI deposits is available by original maturity only. It may be clarified that although the suppliers' credits of more than six months but less than three years and buyers' credits of less than three years are considered under 'short-term loan scheme' in terms of Foreign Exchange Management Act, only credits of up to 12 months are considered as short-term debt for the purposes of external debt statistics following the international conventions.

1.6 The conceptual framework of India's external debt statistics was laid out by the Report of Policy Group on External Debt in 1992. The issues relating to external debt of India, including that pertaining to short term debt, were re-examined by the Technical Group on External Debt (1998) (Chairman: Mr. M.R.Nair). In regard to short-term debt, the Technical Group recommended, inter alia, that the suppliers' credits of up to 180 days and other short-term debt liabilities needed to be captured in database. The Technical Group also recommended that India's external debt be compiled on a residual maturity basis and that the residual maturities may be presented over a span of five years ahead of a reference date with the remaining maturities clubbed together.

1.7 In order to implement the recommendations of the Technical Group in relation to short-term debt and also to study the best international practices in this regard, a following team with support under the Institutional Development Fund (IDF) grant facility of the World Bank was constituted:

Co-ordinator

1.	Shri Deepak Mohanty	Director, DIF, DEAP, RBI

Department of Economic Affairs, Ministry of Finance

2.	Dr. K. Shivaji	Deputy Secretary, ECB Division

Bank of Baroda

3.	Shri N.Balasubramanian	General Manager

ANZ Investment Bank

4.	Shri Rajesh Narayan	Director

Securities and Exchange Board of India

5.	Shri P.Gupta	Division Chief

Reserve Bank of India

6.	Shri M.R.Sardar	General Manager, ECD
7.	Shri P.Jana	Assistant Adviser, BPSD, DESACS
8.	Shri Muneesh Kapur	Assistant Adviser, DIF, DEAP

1.7 The Group had the benefit of discussions with a number of international financial institutions and major central banks on issues relating to international best practices and country practices of compilation. The Group also received valuable support from officials of the domestic organisations involved in the project report (Annex A).

1.8 The Secretariat for the Group was provided by the Division of International Finance, Department of Economic Analysis and Policy, Reserve Bank of India, Central Office.

Outline of the Report

1.9 Chapter II of this Report addresses conceptual and definitional issues relating to coverage of short-term debt. Chapter III focuses on international practices in regard to methodologies to capture suppliers' credits of shorter maturity. In the backdrop of international practices, various alternatives to capture suppliers' credits of shorter maturity in the Indian context are studied in Chapter IV. Issues relating to FII debt investment are analysed in Chapter V. Chapter VI covers issues of database management while the feasibility of obtaining data on residual maturity is discussed in Chapter VII. Chapter VIII gives the recommendations of the Report.

1.10 The Group places on record its appreciation for the World Bank for providing financial support for the Project under its Institutional Development Fund (IDF). The Group also immensely benefited from technical comments received from time to time from the members of the Monitoring Group on External Debt (MGED), particularly Shri M.R. Nair, Officer-in-Charge, Department of Economic Analysis and Policy, Reserve Bank of India and Dr.Tarun Das, Economic Adviser, Ministry of Finance, Government of India.

Chapter II

Conceptual and Definitional Issues

2.1 Short-term debt data in the Indian context, at present, are compiled on an original maturity basis which include two components: (i) trade credits (buyers' credits of all maturities and suppliers' credits beyond 180 days and up to one year) and (ii) NRI deposits of original maturity less than one year. The issues regarding NRI deposits, including short-term deposits, are being dealt by a separate project group. This Report, therefore, focuses on all other components of short-term debt excluding NRI deposits.

2.2 The transactions apart from NRI which could be considered as debt instruments of short-term nature are:

2.2.1 Buyers' credits of up to one year by original maturity

2.2.2 Suppliers' credits of above 180 days by original maturity

2.2.3 Suppliers' credits of up to 180 days by original maturity

2.2.4 Cross-border bank debt liabilities

2.2.5 Overseas lines of credits

2.2.6 FII investment in short-term debt securities

2.2.7 Medium- and long-term debt due over the next 12 months

While items 2.2.1 to 2.2.6 constitute short-term debt of *original* maturity less than one year, item 2.2.7 constitutes medium and long-term debt maturing within one year. The total amount of items 2.2.1 to 2.2.7 thereby constitute short-term debt by *residual* maturity.

2.3 Under the existing conceptual framework, only items (1) and (2) are covered in India's short-term debt by original maturity. Data on short-term debt by residual maturity is provided in the Status Report on India's External Debt, which excludes coverage of components like logn-term non-resident deposits. This chapter reviews the relevance of the remaining components in India's external debt along side the policy framework in relation to these debt components.

Short-term Trade Credits

Policy Framework

2.4 As noted in Chapter 1, suppliers' credits of more than six months but less than three years and buyers' credits of less than three years are considered under 'short-term loan scheme' in terms of Foreign Exchange Management Act (FEMA). However, only credits of up to 12 months need to be considered as short-term debt for the purposes of external debt statistics following the international conventions. Accordingly, although suppliers' credits as well as buyers' credits of more than 12 months but less than three years are approved under 'short-term loan scheme' in terms of FEMA, they should be considered as medium- and long-term debt in external debt statistics. Notwithstanding the definition of short-term loans under FEMA, ECD (RBI) may provide data broken up in to two categories: (I) up to 12 months and (II) above 12 months and up to three years. Only data up to 12 months need to be reckoned towards short-term external debt statistics.

2.5 External commercial borrowings are permitted as a source of finance for expansion of existing capacity as well as for fresh investment. As a part of prudent debt management strategy pursued since the early 'nineties, these borrowings have been subject to an approval process. Approvals for medium- and long-term commercial borrowings (3-year maturity and above) in a given year are subject to an overall ceiling and maturity prescriptions with policy preference for infrastructure and core sectors as also export sector. There is no end-use restriction except for investment in real estate and stock markets. Amongst the permitted uses, external commercial borrowings can be utilised for import of capital goods, project related rupee expenditures and also for general corporate objectives. With a view to liberalise further ECB approvals, the Government has decided to place fresh ECB approval up to US $ 50 million and all refinancing of existing ECB under automatic route facility. The automatic route arrangement has been operationalised since September 2000 and raising of fresh ECB up to US $ 50 million or refinancing of existing ECB by Indian corporates would not require any prior approval from MOF/RBI. However, while raising funds under auto route facility, Indian corporates will have to comply with ECB guidelines framed by the MOF and regulations/directions/circulars issued by the RBI in this regard.

2.6 The policy with regard to commercial borrowings of up to 12 months (short term credits) continues to be relatively restricted in various aspects. The Indian policy on short-term debt has been largely dictated by the lessons from the payments difficulties faced by India in 1991. One of the factors contributing to the 1991 payments crisis was the volume of short-term debt at end-March 1991 (US $ 8.5 billion) and difficulties in its roll-over. The Report of the Policy Group on External Debt Statistics of India (1992) rightly noted that 'the problem of short-term debt is essentially a question of liquidity and this needs to be kept in view in debt management.'

2.7 The policy framework in regard to short-term credits was laid down in the Report of High Level Committee on Balance of Payments (1993) (Chairman: Dr. C. Rangarajan). On a critical review of the policies on short-term debt and its role in precipitating the 1991 payments difficulties, the High Level Committee noted that the problem was not because of the magnitude of the short-term debt. Rather, the fact that short-term debt was not used purely for trade financing purposes but as a means of protecting the reserves was seen as the contributory factor. Under the practices prevailing in the late 'eighties, the short-term credits, initially incurred for a period of six months and most of which were by a single canalising agency (the Indian Oil Corporation), used to be rolled over more than once. The roll-over was forced by the inability of the country to release foreign exchange reserves for discharging such debt. In the late 'eighties, short-term credits were in the form of credits under Bankers' Acceptance Facility (BAF). The outstanding under BAF and other facilities, for instance, amounted to US $ 3,551 million at end-March 1991. The reluctance on the parts of normal banking channels to provide renewal of short-term credit to Indian banks abroad was one of the crucial factors underlying the external payments crisis of 1991.

2.8 In view of the prevailing practices, the High Level Committee provided the following policy guidelines for short-term debt (para 10.2 of the Report):

2.8.1 Short-term debt should be permitted only for trade-related purposes and under normal terms.

2.8.2 Recourse to short-term debt should not be taken as instrument for protecting the reserves.

2.8.3 No roll-over beyond six months should be agreed in regard to any short-term facilities without careful consideration of the implications.

2.8.4 Any short-term debt not governed by the above considerations should be specifically approved by RBI.

2.8.5 The RBI should set up a monitoring system for the stock of short-term debt.

2.9 Based upon the detailed guidelines of the High Level Committee, short-term credits have since been allowed strictly for import purposes, unlike medium- and long-term external commercial borrowings which are allowed for a host of purposes including project related rupee expenditures. In addition, total outstanding under short-term credits is subject to a ceiling. As noted earlier in Chapter I, the policy has helped to keep short-term debt under check; in fact, the stock of outstanding debt has more than halved since March 1991. Short-term debt by original maturity was US $ 4.0 billion at end-March 2000 as against US $ 8.5 billion at end-March 1991.

2.10 The cautious Indian policy with regard to short-term debt has been vindicated in the backdrop of crisis in East Asia and elsewhere. It is believed that international financial markets are inherently unstable, at least for countries borrowing abroad at short maturities and in foreign currency. Accordingly, caps on short-term debt are advocated given that the 'notion that improved supervision will quickly render short-term capital flows benign is unproven and unlikely'

(Radelet and Sachs, 1998). The policy regime also appears to be in tune with the recommendations of the Report of the Working Group on Financial Crises in Emerging Markets (IIF, 1999). In order to limit vulnerability to high short-term external debt, the Working Group recommended:

2.10.1 removal of distortions that favour short-term debt and discriminate against long-term borrowings,

2.10.2 encouragement to foreign direct investment, and

2.10.3 appropriate macroeconomic policies (most importantly, a market determined exchange rate system and manageable current account deficits).

Present Institutional Arrangements

2.11 Under the existing arrangement, trade credits of maturity less than three years (other than suppliers' credits of up to 180 days which do not require any approval) are approved and monitored by the Reserve Bank of India. The borrowers are required to apply to the Reserve Bank, in a form called 'ECB4' (Annex A), and the proposals are considered by the Reserve Bank on merits of each case and cleared in the light of the prevailing policy and subject to overall ceilings on the outstanding debt. Amortisation payments are allowed to be made by the authorised dealers in accordance with the terms and conditions indicated in the letter of approval issued by the Reserve Bank. Under the existing monitoring system, the borrowers are required to report to the Reserve Bank, in form 'ECB5' (Annex B), every month (by the 10^{th} of the next month) the drawals, utilisation, repayments and outstanding debt in respect of each approval. Thus, the reporting regime is quite rigorous as compared with the medium- and long-term external commercial borrowings, which is based on a quarterly reporting system.

Suppliers' Credits of Original Maturity less than 180 Days

2.12 A major weakness of the present reporting and the monitoring system on short-term trade credits is that it does not capture suppliers' credits of less than 180 days which are considered as a normal trade practice and hence are exempted from exchange control approval. Buyers' credits of even less than six months, on the other hand, need exchange control approval and hence, as noted earlier, are captured in the database. Keeping in view the strong dynamics between the exchange rate movements and leads and lags in import payments, which come into full play during periods of exchange rate volatility, it is of crucial importance to have estimates of suppliers' credits of up to 180 days maturity. The Technical Group, as noted earlier, recommended their inclusion in external debt statistics. A detailed discussion on the institutional mechanism to capture these credits is undertaken in Chapters III and IV.

Cross-border bank debt liabilities:

2.13 This head could comprise banks' nostro account overdrafts and vostro account credits.

While nostro account of the banks have generally a net asset position, overdrafts in these accounts arise for a very short period of time (mostly, overnight) and on rare occasions. Overdrafts, therefore, are of transitory nature reflective of payments settlement practices rather than a desire of the banks to avail any planned debt. The operations and balances are closely scrutinised by the banks on a daily basis to ensure that nostro accounts are not overdrawn and/or funds are not lying idle. Moreover, in cases of overdrafts, immediate action is taken by the banks to fund these accounts. On very rare occasions, nostro account overdrafts do occur for a variety of reasons:

2.13.1 On account of payments and settlements lags, there may occur non-receipt of funds for credit on value date in respect of inter-bank deals. In such cases, generally back-valuation is given.

2.13.2 At times, on account of large drawings in respect of reimbursement claims of L/Cs opened by authorised branches, intimation of drawings by foreign banks is not received in the funds desk of foreign account section.

2.13.3 Banks maintain more than one nostro account in the same currency for some major currencies. However, typically only one of these accounts maintains large balances; if the drawings by authorised branches in the account are made in other accounts and information does not receive the funds desk, the overdrafts may arise in the absence of funding.

2.14 Foreign banks as well as overseas branches of Indian banks maintain vostro rupee accounts with authorised dealers in India to cover their daily rupee drawings on Indian branches for the purposes of payments and settlements.

2.15 It is apparent that debits in nostro accounts and credits in vostro accounts arise mainly out of payments settlements systems. Furthermore, the amounts involved are rather small. While overdrafts in nostro accounts over the period June 1997-September 1999 averaged less than US $ 100 million, credits in vostro accounts have averaged about US $ 300 million (Annex). Accordingly, in view of the nature of the accounts and the amounts involved, the Group recommends that such debits in nostro account and credits in vostro account need not be reckoned towards a country's external debt.

Lines of credits to Authorised Dealers (ADs)

2.16 Another possible short-term external debt liability could arise on account of the facility allowed to ADs to borrow overseas. In order to facilitate integration of domestic and overseas money markets, ADs have been allowed to borrow abroad. As a prudential measure, their external borrowings have though been related to their capital base. At present, ADs are allowed to avails of loans, overdrafts and other types of fund based credit facilities from their overseas branches and correspondents up to 15 per cent of their unimpaired Tier I capital or US $ 10 million or its equivalent, whichever is higher. The funds are allowed to be used for any purpose other than lending in foreign currencies. ADs have been provided the flexibility to cross these limits solely for replenishing their rupee resources in India for normal business operations and not for deployment in call money or other markets. In such instances, a report on each borrowing has to be immediately forwarded to the Reserve Bank whose prior permission would be needed for repayment of such loans. Such permission is given only if the AD has no borrowings outstanding from the Reserve Bank or other bank/financial institution in India and is clear of all money market borrowings for a period of at least four weeks before the repayment.

2.17 Banks have to report the use of this facility to the Reserve Bank on a monthly basis. Available information indicates that banks have not made use of this facility. The absence of recourse to this facility by banks so far seems to be indicative of availability of un-swapped FCNR(B) funds with banks at present. However, in future, depending upon market developments, like availability of long-term forward/swap markets, it is conceivable that banks may make use of this facility.

2.18 Accordingly, the Group recommends that the ECD (RBI) may devise a consolidated monthly reporting to DEAP (RBI) on the outstanding balances under the scheme as and when the scheme is activated. The outstanding balances under such credit lines may be included in the external debt statistics.

FII investment in short-term debt securities

2.19 Institutional arrangement to capture FII investment in short-term debt securities is discussed in Chapter V.

Medium-and long-term debt due over the next 12 months

2.20 The inclusion of 'medium- and long-term debt due over the next 12 months' in short-term debt is more of a definitional issue emanating from the residual maturity concept rather than a coverage issue.

2.21 Since the data gathering system for such debt securities is well established, the group recommends that necessary modification may be incorporated in the data processing system to generate residual maturity profile. The long-term debt securities with a residual maturity of upto 1 year may be treated as short-term debt.

Chapter III

External Debt Statistics : International Best Practices

Data Reporting Arrangements: International Organisations

3.1 Major international organisations involved in the compilation and dissemination of external debt data are the World Bank, the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Institute of International Finance (IIF) and the Organisation for Economic Co-operation and Development (OECD). While the World Bank defines short-term debt on original maturity basis, the BIS, the OECD and the IIF follow a residual maturity approach to short-term debt.

3.2 The World Bank's database on short-term debt is based on the information provided by individual country authorities. In case, this information is not available with country authorities, the World Bank makes use of the BIS database on residual maturity to derive data on original maturity basis by deducting from claims due in one year those that a year earlier had a maturity of between one and two years. The IIF estimates on short-term debt are based on the information available with country sources supplemented by data from other agencies and, in particular, the BIS. The BIS pools its database with that of the OECD to bring out data on short-term debt on a residual maturity basis, defined as liabilities with an original maturity of one year or less plus repayments due within the next 12 months. As the BIS data are an important input for a number of other agencies, a critical review of the BIS database follows.

The BIS Database on External Debt

3.3 The BIS data comprises following three components, viz. liabilities to banks, debt securities abroad and non-bank trade credits extended by the OECD countries. A brief discussion of these sources is set out next.

Liabilities to banks

3.4 The data comprise liabilities to banks that are nationals of (i.e. headquartered in) 18 major industrialised countries. The data are derived from the BIS Consolidated Banking Statistics (CBS) which provide data on banks' international assets based on location of the head office of reporting banks. Data on liabilities to reporting banks are shown as claims on borrowers in the recipient country, but without loans being shown separately. The CBS data measure international indebtedness to the country of origin (the location of head office), rather than the country of residence of reporting banks; data are thus based on the country of ultimate risk and not on the residency criterion. The data are broken up into the categories of (a) up to and including one year (b) over one year and up to and including two years and (c) over two years.

Separate information on up to 6 months maturity and 6-12 months maturity is, however, not available. The BIS data also include local lending in non-local currency which, being a transaction between a resident and non-resident, should not be a part of external debt. Furthermore, as noted below, the data include holdings of short-term debt securities issued abroad but are not identified separately.

Debt securities issued abroad

3.5 The data are derived from quarterly BIS statistics on issue of money market instruments, bonds and notes in international markets and are based on information provided by various market sources (such as Euroclear, Euromoney, IFR and ISMA). These statistics include all foreign currency issues by residents and non-residents in a given market, including in the borrowers' own currency and foreign bonds (domestic currency bonds issued by non-residents in a given market). These, however, exclude all domestic currency issues by residents targeted to their own national markets, whether purchased by residents or non-residents. The data are aggregated by the BIS according to the following standard criteria: the currency of issue, the business sector of issuer, the type of issue and the country of residence and nationality of issuers. Unlike the CBS data on liabilities to banks, the data on debt securities are based on the concept of residency, consistent with balance of payments methodology. The data, as noted above, include securities held by foreign banks which are also included in the head 'liabilities to banks'. Accordingly, a simple summation of the items 'liabilities to banks' and 'debt securities issued abroad' is not valid as it would include an element of double counting.

Non-bank trade credits extended by the OECD countries

3.6 The data, based on semi-annual reports to the OECD made by OECD member countries' export credit guarantee agencies, cover only non-bank official and officially guaranteed or insured suppliers' credits, i.e., trade credits which have been guaranteed or insured by the official sector in the creditor country. These include export credits with an original maturity of one year or less and principal due in the next year on credits with an original maturity of over one year. A weakness of the data, however, is inclusion of funds awaiting disbursement.

Joint BIS-IMF-OECD-World Bank Statistics on External Debt

3.7 In an important recent development, the Inter-Agency Task Force (IATF) on Finance Statistics comprising the BIS, the IMF, the OECD and the World Bank have started publishing quarterly external debt data including short-term debt (by residual maturity) by bringing together data that are currently complied and published separately by the contributing international agencies (i.e., the BIS, the IMF, the OECD and the World Bank). The latest in the series of the quarterly releases on the external debt of 176 developing and transition countries have been published for the period ending March 2000.

Methodology and Coverage of the IATF Statistics

3.8 The IATF statistics bring together data that are currently complied and published separately by the contributing international agencies and supplemented by other market sources. The data include lending by the BIS reporting banks; major multilateral institutions; bilateral assistance from the OECD area; official/officially guaranteed trade credits from the OECD area; and, debt securities issued in international markets. However, as there is some unidentified degree of overlapping in these categories, the IATF have not provided any figures for total external debt.

3.9 On the other hand, these data, as the IATF itself notes, are not comprehensive. In particular, the IATF data exclude the following components of external debt:

3.9.1 Non-officially guaranteed suppliers' credits not channelled through banks (for example, direct investment debt).

3.9.2 Private placements of debt securities

3.9.3 Domestically issued debt held by non-residents (for instance, FII investment in debt securities)

3.9.4 Deposits of non-residents in domestic institutions

3.9.5 Loans extended by the banks outside the BIS reporting countries.

3.9.6 Bilateral assistance from non-OECD countries

3.9.7 Assistance provided by multilateral institutions other than the IMF, the World Bank (IBRD and IDA), the Asian Development Bank, the African Development Bank and Inter-American Development Bank.

3.10 The impact of these exclusions on a country's total debt would depend upon country-specific situation; for instance, in the Indian context, NRI deposits, which are quite significant, get excluded from the IATF database.

Debt Due With in a Year

3.11 Short-term debt over the next 12 months by residual maturity are identified separately for three sub-categories, viz. liabilities to banks (line G), debt securities issued abroad (line H) and non-bank trade credits (line I). At the same time, as in the case of total debt, the stock of total short-term debt is not provided as there is some degree of overlapping of data coverage in respect of these three categories. On the other hand, the IATF does not provide short-term debt data for the categories 'multilateral claims' and 'official bilateral loans'.

Comparison of IATF Statistics with those released by the national authorities (RBI/MoF)

3.12 In order to ascertain the approximate magnitude of India's short-term debt on residual maturity basis, we attempted a comparison of IATF debt statistics on India with that of the data released by MoF for December 1999. Such data comparisons are, however, limited by the following:

3.12.1 The data format of the IATF is not strictly comparable with RBI/MoF data format.

3.12.2 Moreover, the IATF, as noted earlier, have only provided various categories of debt without providing consolidated stock of India's external debt given a degree of overlapping.

3.13 For the limited purpose of the present exercise, total short-term loans in the IATF format (subject to a unspecified degree of double counting) amounted to about US $ 10.0 billion. According to the Status Report of the MOF (June 2000), short-term debt by original maturity amounted to US $ 2.4 billion (excluding NRI deposits to make the data comparable) while that by residual maturity amounted to US $ 8.5 billion (excluding NRI deposits to make the data comparable). However, the Status Report data include debt owed to multilateral and bilateral institutions which are not included in the IATF database. With a view to making the database comparable, debt owed to multilateral and bilateral institutions included in the Status Report needs to be excluded. In the recent past, principal repayment to the multilateral/bilateral institutions has been around US $ 2.5 billion per annum. If this amount is removed from the Status Report data, short-term by residual maturity would amount to about US $ 6 billion as against US $ 10 billion in the IATF statistics. A part of the difference could be on suppliers' credits of up to 180 days not included in the RBI/GoI database and a degree of overlapping. However, it is important to stress that all suppliers' credits may not get reported in the BIS database[1].

Comparison with IIF Statistics

3.14 Comparison of estimates by the Institute of International Finance (IIF), based on residual maturity concept, show that India's short-term debt was US $ 12.6 billion at end-1998 as against US $ 4.5 billion (by original maturity) at end-March 1999 in the RBI/MOF database. This was against more than US $ 30 billion each for China, South Korea and Russia for the

[1] Even then such suppliers' credits need not get reported as an external claim. "Depending on the practice followed by the reporting country concerned and on the way the bank acquired the suppliers' credit, statistical treatment would classify this credit either as a claim on the local exporter (not to be reported as an external claim) or as a claim on the non-resident importer (i.e, as an external claim)"[2]. In case of trade bills, the classification in to a local or external claim when acquired by the reporting bank depends essentially on whether it is classified according to the residence of the non-resident drawee/purchaser or that of the seller of the bill. Most reporting countries apply the first criterion (i.e., the residence of the non-resident drawee, while a small number of countries require banks to report suppliers' credits as an external claim only when they were acquired from a non-resident.

same period. India's short-term debt was 47 per cent of its forex reserves in 1998 as compared with Indonesia's 122 per cent, Russia's 444 per cent, Brazil's 104 per cent and Mexico's 134 per cent. The ratio for South Korea, although significantly down in 1998, was in excess of 300 per cent in 1997 indicating its vulnerability in the event of a loss of a confidence by investors. Since typically short-term credits are used for financing of imports, scaling short-term debt by imports of goods and services provides intensity of the use of short-term credit and signals the extent of shock/adjustment in the event of a crisis. While in the case of India a decline in this ratio is seen throughout the period, a build-up in case of other countries is evident in the pre-crisis period (Table 2). Thus, even by a comprehensive measure of short-term debt, the effective management of India's short-term debt comes out more clearly through a comparison with other emerging market economies.

Methods to Capture Suppliers' Credits

IMF's Recommendations

3.15 By there very nature, suppliers' credits of short maturity are considered a normal trade practice. And, since trade transactions run in to large numbers, loan-by-loan registration is neither practical nor necessary. The IMF's Balance of Payments Guide too recognises difficulties in measuring trade credits. The IMF Guide therefore suggests following alternatives to measure trade credits (paragraph 767, page 168):

3.15.1 Parties involved in trade with non-residents could provide details on delivery dates as well as information on payments. However, since trade credits will only be known when payments are actually made and payments be made some time after trade credits are originally extended, this method could lead to delays in providing estimates or to revisions in data for previous periods.

3.15.2 Customs records could be matched with bank records. This process would however be not only laborious but also require fairly sophisticated systems to undertake the matching.

3.15.3 Total imports on payments basis could be compared with total imports on customs basis. The difference between these two sources adjusted for transactions financed by other means (such as loans or goods under barter arrangements or goods provided as gifts) could be assumed to represent transactions in trade credits.

3.16 Instead of having a direct reporting system on a loan-by-loan basis as proposed at variant (1), information available on flows elsewhere in the system could preferably be tapped. In principle, trade credit would be the difference between the date of the change of ownership of goods and the date of payment by the importer. As a matter of fact, the IMF's Balance of Payments Manual (5^{th} edition) recommends that goods for import are considered to change ownership when the importer enters them on his books as a real asset (i.e. when he records a purchase) and makes a corresponding entry in his financial account (paragraph 204, page 55). In practice, this information is not available to the compilers as the data are either recorded on the basis of customs information or on the basis of banking system records, both of which may or may not coincide with the change of ownership. Recognising these practical difficulties, the IMF's Balance of Payments Textbook (1996) notes that: 'It will, of course, be impossible to ascertain the specific date on which the legal change of ownership took place, but that information is not required. Timing adjustments may be made on the basis of some simple rule of thumb. For example, it may be assumed that changes of ownership for both exports and imports coincide with shipment from the exporting country (paragraph 280, page 58)'. Given these observations of the Manual and the Textbook, trade credit could be roughly proxied by the difference between the date of shipment of imports and the date of payment by the importer. The feasibility of exploiting this principle in the Indian context is explored in a later section.

3.17 Given the data availability problems, a number of countries do not capture such trade credits in their database at all. Other countries capture such data through the help of suitable surveys or other ex-post methodology.

Systems in Select Countries

Italy

3.18 Since no reconstruction of trade credits can be made until the credit matures, Italy follows an ex-post methodology to estimate the current period's trade credits. Thus, the data are captured with a lag of at least one year by shifting backwards the data for deferred payments of imports in the subsequent 12 months by an interval equal to that declared by the importer to have passed between the transit of the goods and the month in which the payment was made. An example would illustrate the point clearly. If an importer makes a deferred payment in June for goods declared to have been received 5 months earlier (i.e., in January), the trade credit amount is assumed to be equal to the value of the goods when they crossed five months earlier and is recorded on the credit side of financial account for January. Since the actual data are only available after a lag of 12 months, more immediate period data are estimated through a two-stage process. The first stage involves forecasting total monthly payments (advance payments and cash payments in addition to deferred payments) for imports that would be made in the next 12 months. Second, an estimate is made of the share accounted for each month by trade credit provided imports (post-payments) only. It is assumed that in the i^{th} month, the percentage of payments deferred by j months is exactly equal to the average observed over the previous two years.

Belgium/Luxembourg

3.19 Data for trade credits are covered by a monthly survey, from which a sectoral breakdown can be obtained. The survey provides month-end information on assets and liabilities related to transactions on goods for 1500 companies.

Norway

3.20 In the Norwegian balance of payments, trade credits are calculated as the difference between the exports and imports of specified goods from the External Trade Statistics collected by the customs authorities and the ITRS produced by Norges Bank (Central Bank of Norway).

Croatia

3.21 Trade credits with maturity over 90 days are subjected to registration with the Croatian National Bank. Data on trade credits with maturity up to 90 days are collected on the basis of a Survey on Obligation Settlement Related to Imports of Goods. A proforma of the Survey questionnaire is attached at Annex 'D'.

France

3.22 In France, estimates of short-term credits are derived on the basis of a monthly survey of trade credits. The Survey is addressed at permanent operators in trade. Amongst the 50,000 odd companies in the Bank of France's population Census, the sample Survey, following a sampling design, is restricted to 1500 companies across all sizes - large, medium and small - and the results are blown up to the population size. All trade credits are covered in the Survey with a distinction between buyer's credits and suppliers' credits. Furthermore, a distinction is made by splitting the credits between merchandise and other activities (mainly services) through appropriate codes. No break-up of maturity is, though, available in the Survey. A copy of the survey format is at Annex 'E'.

Germany

3.23 Since recording of individual transactions of short-term credits is very complicated, the German balance of payments derives estimates of trade credits on the basis of monthly outstanding external assets and liabilities reports to be submitted by banks and non-banks. In the case of banks, reports have to be submitted by all domestic banks whose external assets or liabilities exceed a value of DM 10 million or which have branches abroad. Similarly, non-banks have to report the end-month stocks of their claims on and liabilities to non-residents if the total claims or total liabilities amount to more than DM 500,000. In the case of non-banks, claims or liabilities are required to be classified in to two categories viz., (a) claims and liabilities arising from financial relations with non-residents and (b) claims on and liabilities to non-residents arising from goods and service transactions. The sub-category (b) captures short-term trade credits of up to 12 months on an original maturity basis.

Sweden

3.24 Information on trade credits is compiled by Statistics Sweden on the basis of quarterly sample surveys.

Overall Assessment

3.25 The Group felt that in computation of short-term debt, the national authorities (RBI/ MOF) should follow the international best practices with respect to definition and coverage. Since a number of international agencies such as the BIS and the IIF (apart from the World Bank) release statistics on India's external debt, particularly short-term debt, which could have a market impact, periodic efforts should be made by national authorities to reconcile the different databases once the official database is put on the same conceptual framework as that of the international agencies. However, for national authorities to put the official data on same conceptual framework as that of international agencies, it is essential that the differences in the approach followed by the international agencies are sorted out and a consensus is evolved on the conceptual framework.

Chapter IV

Capturing Short-term Trade Credit: Evaluation of Alternate Systems

Relevance of the IMF's Guide to India

4.1 As noted earlier, the IMF has suggested three different alternatives to capture trade credits in its Guide. An assessment of these alternatives in the Indian context indicates that the second and the third method suggested by the IMF in its Guide are not feasible.

4.2 According to the second method, customs records could be matched with bank records. This method's limitations arise due to the lack of computerisation and the absence of any common identification key between the customs records and bank records.

4.3 The third method, it may be recalled, suggests that total imports on payments basis could be compared with total imports on customs basis. The difference between these two sources adjusted for transactions financed by other means (such as loans or goods under barter arrangements or goods provided as gifts) could be assumed to represent transactions in trade credits. In the Indian context, the limitations of the third method are on account of significant differences on account of coverage, valuation and timing between total imports recorded by the Directorate General of Commercial Intelligence and Statistics (DGCI&S) which are based on Customs records and those recorded by the Reserve Bank. The differential is mainly on account of coverage: while the Reserve Bank's data which are on payments basis include non-civillian imports as also those civillian imports which do not pass through the customs, the DGCI&S data do not include the same. The divergence between the two sources has averaged about US $ 7 billion in the period 1993-94 to 1998-99. A part of the difference is on account of the inclusion of import of baggage gold and silver by returning Indians in the Reserve Bank's database; excluding such baggage gold and silver, the difference still remains significant although it reduces somewhat to US $ 5-6 billion (Table).

Table: Imports in the RBI and the DGCI&S Database

(US $ million)

Year	Imports on payments basis (RBI)	Imports on shipment basis (DGCI&S)	Total Difference	Difference Other than baggage gold and silver
1993-94	26739	23306	3433	1763
1994-95	35904	28654	7250	5150
1995-96	43670	36675	6995	5043
1996-97	48948	39132	9816	7100
1997-98	51187	41484	9703	6999
1998-99	47544	42389	5155	4989
1999-00	55383	47212	8171	8158

Appropriate System for India

4.4 Given the data limitations and in the context of country practices, the Group studied the following alternative systems:

4.4.1 Feasibility of estimates from the existing bank reporting system.

4.4.2 Periodic bank reporting (in case of L/C based credits).

4.4.3 Periodic surveys of importers in case of non L/C credits.

4.4.4 Feasibility of a survey based method from information available in 'A1' forms.

4.4.5 Census on India's Foreign Liabilities and Assets conducted by RBI.

4.4.6 Possibility of using short-term debt brought out by the BIS and the OECD for cross-checking/refining India's short-term debt estimates.

A detailed assessment of these alternatives follows:

Existing Bank Reporting System

4.5 Authorised dealers (ADs) are allowed to open letters of credit (L/Cs) for import of goods, provided the usance period of suppliers' bills drawn under L/C does not exceed 180 days. Suppliers' credits of up to 180 days can be broadly classified in to the following four categories depending upon whether they are under letters of credit or on collection basis:

4.5.1 Imports under L/Cs on D/P basis

4.5.2 Imports under L/Cs on D/A basis

4.5.3 Imports on D/P basis without going through the L/C route

4.5.4 Imports on D/A basis (collection basis) without opening of L/Cs

4.6 Of the four possible sources of suppliers' credits, the banks would have the necessary database ex-ante on credits through routes (1) and (2). However, in case of items (3) and (4), ex-post data would be available with banks as they would come to know about the transaction only when actual remittance is made to the overseas supplier.

4.7 The weekly statement of banks provides information on a part of the total outstanding import bills against the country. However, the coverage would be restricted to only such trade bills where the importer has accepted the bill. This source, therefore, suffers from a major weakness in that it would exclude all such trade credits where the shipment has already taken place but the importer has still not approached his banker. Moreover, this method would provide no information on the period of credit.

Periodic Bank Reporting (in case of L/C based credits)

4.8 In the case of imports under letters of credits (L/C), banks would be in a position to provide data on L/Cs opened by them, expected dates of shipment and expected due date of payment. An advantage of this method would be its ex-ante nature. However, an important limitation of this method would be its partial coverage as non-L/C trade credits would get excluded.

4.9 A fortnightly reporting system that combines features described above is in force. Under the reporting system, major banks provide data, inter alia, on (a) outstanding L/Cs (sight as also usance) and (b) outstanding import bills (under L/C as also collection) pending payment by customers (the format is at Annex). The data are submitted on a fortnightly basis to the Department of External Investments and Operations (DEIO) in the Reserve Bank. The item (a) 'outstanding L/Cs (sight as also usance)' would include such L/Cs where shipment is yet to take place and hence would overestimate outstanding L/C based suppliers' credits, although at the same time, non-L/C based suppliers' credits would be fully ignored. At the same time, under normal foreign exchange market conditions, leads and lags in payments follow a stable pattern; under these conditions, and on the assumption that all L/Cs opened are ultimately translated in to actual imports, outstanding L/Cs at a given point of time would also proxy as a lower bound for suppliers' credits of up to 180 days. An advantage of this method would be provision of ex-ante information.

4.10 On the other hand, item (b) 'outstanding import bills (under L/C as also collection) pending payment by customers' would include only such cases whereby the importer has accepted the bill. It would, therefore, exclude all such cases where shipment may have already taken place but where the importer has yet not approached his bank. Item (b) would, therefore, provide an underestimate of total trade credits. In both cases (a) and (b), the data are, therefore, indicative of a lower bound on outstanding trade credits.

4.11 Analysis of data obtained from major banks indicates that outstanding import letters of credits averaged about Rs. 11,714 crore or US $ 2.7 billion over the period June-October 1999. Outstanding import bills over the same period averaged Rs. 9982 crore or US $ 2.3 billion. Accordingly, a figure of around US $ 2.5 billion can be treated as a sort of a lower bound on suppliers' credits of up to 180 days.

4.12 As this information is readily available with the banks, the Group felt that it would be useful to extend this reporting format to all banks to increase the coverage. For the purposes of the external debt statistics, the reporting period could be made monthly as against the fortnightly system in vogue.

Periodic Surveys of Importers in Case of non-L/C Credits

4.13 Another alternative is to capture information on non-L/C based trade credits by periodic surveys of the relevant group of importers, assuming that provision of trade credits follows a certain stable behaviour. Since trade credit practices could differ across various industries, surveys of properly selected import industries/groups could provide an important input. Towards this objective, the Group conducted snap surveys of two major import commodities, viz. diamond imports and bullion imports. Coupled with available information on POL imports, the coverage of these three groups - diamond imports, bullion imports and POL imports - is nearly one-third of total imports by India.

Oil Imports

4.14 The single largest component of India's imports, roughly a quarter of total, is on account of POL imports. According to available information, these are financed either through cash or buyers' credits. Since the latter are already captured in short-term debt database, no additional short-term debt will arise on this account.

Bullion Imports by Banks

4.15 With the liberalisation of policy on bullion imports, bullion imports by banks have become a significant component of India's imports. Bullion imports under the OGL route increased from US $ 0.9 billion (2 per cent of total imports) in 1995-96 to US $ 5.1 billion (10 per cent) in 1998-99 before declining to US $ 4.4 billion (0.8 per cent) in 1999-2000. A pre-dominant part of this increase is on account of imports through the designated banks. A survey was addressed to the banks to study the financing pattern of these imports. The survey response from the importing banks indicated that bullion imports are either on a cash basis or on a consignment basis. Amongst the banks in the sample, the proportion of consignment imports amounted to a little over 40 per cent in 1998-99; the proportion increased to around 60 per cent in the first eight months of 1999-2000. Thus, the question of trade credit does not arise in case of bullion imports through the banking channel.

Diamond Importers

4.16 Imports of 'pearls, precious and semi-precious stones' constitute a significant part of Indian imports. For instance, these imports increased from US $ 2.9 billion in 1996-97 to US $ 3.8 billion in 1998-99 and formed 7-9 per cent of total imports during the period 1996-99. It was considered useful to have rough estimates of trade credits for this group. In the case of gems and diamonds, imports take place through two main channels viz. the Diamond Trading Company (DTC) and non-DTC route. In the case of imports through the DTC route, no trade credit arises as all imports are under advance payments; it is understood that roughly a fourth of India's diamond imports occur through this route. The remaining three-fourth of imports are through the non-DTC route wherein trade credits are available for a period ranging from 30-120 days, though mainly it is for 90 days. Moreover, the trade credit is available for full amount of imports. Under these assumptions, trade credits on account of the category 'pearls, precious and semi-precious stones' would have roughly amounted to US $ 0.7 billion at any given point of time, assuming no seasonal pattern.

Other Industry Groups

4.17 A survey was addressed to a few selected major importers in the country. A proforma of the survey format is at Annex E and the data were collected for two years (1998-99 and the first half of 1999-2000). Survey information - sample responses were around 3 per cent of total imports other than categories separately covered above - indicates that the proportion of imports financed through L/C route was about one-fourth of total imports; correspondingly, non-L/C route constituted three-fourth of total imports. As regards the financing pattern of imports, suppliers' credits of up to 180 days financed around a third of imports.

4.18 Given the usefulness and additional information availability from such surveys, these could be undertaken on an ad hoc basis to supplement data collected from ADs. The success of this method would depend upon the number of permanent operators in trade credits. This would require the need to find out the composition of the trade operators in the Indian market and the degree of regularity with which big operators are active in the market.

Information Available in 'A1' forms

4.19 Under the present exchange control regime, importers are required to fill a form 'A1' for payments at the time of retirement of import bills and submit the same to authorised dealers (ADs) (a specimen of the form A1 is at Annex). The data from A1 forms are the most important source of imports in the India's balance of payments. Form A1 provides information, inter alia, on shipment date, date of payment, country of import and import amount.

4.20 At present, critical ADs (ADs who constitute about 80-85 per cent of the total foreign exchange transaction in the country) report information on their foreign exchange transactions with the public in electronic media (floppy diskette) on a fortnightly basis to the Reserve Bank along with the fortnight's R-Return. Under the category of imports, ADs enter details on the following four fields: date of payment, country of import, currency of payment, import value. The existing floppy based reporting system can be modified to gather the information on suppliers' credits of up to 180 days. By adding one more field code viz., date of shipment to the current software, the magnitude of trade credits could be easily known, although on an ex-post basis. The difference between date of shipment and date of payment could provide an idea of duration of trade credit. This is consistent with the recommendations, as noted earlier in the review of international practices, of the IMF's Textbook. Information on currency of trade credit should generally be the same as the currency of import payment and hence can be assumed to be the same.

4.21 As this method would provide data ex-post, estimates for the more immediate period data could be, as in the case of Italy, prepared through a two-stage process. The first stage involves forecasting total monthly payments (advance payments and cash payments in addition to deferred payments) for imports that would be made in the next 6 months. Second, an estimate is made of the share accounted for each month by suppliers' credits of up to 180 days, taking in to account seasonal behaviour, if any. Initially, seasonality can be approximated by assuming that in the i^{th} month, the percentage of payments deferred by up to 180 days equals the proportion in the previous year. As a longer data series becomes available, the methodology could be refined to capture seasonality. Once the actual data become available after a lag of six months, the estimates can be replaced with the actuals.

4.22 With a view to test the robustness of this method, a pilot study was undertaken at a branch each of the Bank of Baroda and of the ANZ Grindlays Bank. The revised software was provided to these branches and the branches were advised to submit data for a period of two fortnights in addition to regular reporting on the existing software. The software worked satisfactorily. The software used for the pilot project with necessary modifications could be incorporated into the software provided to critical ADs to report information on their foreign exchange transactions with the public in electronic media (floppy diskette).

4.23 As the software was restricted to just two branches that account for a very insignificant proportion of total import payments, the results from these branches can not be generalised. Keeping this caveat in mind, the preliminary results obtained from the trial run for these two branches are reproduced below just to highlight the robustness of the software. The exercise revealed that, on a weighted average basis, three months of imports remain outstanding at a point of time. However, since there are no suppliers' credits of up to 180 days in case of POL imports and bullion imports by banks, the weighted average when applied to overall import level would be much less than three months.

Number of months for which imports are outstanding	**Amount of imports outstanding (%)**
6	11
5	14
4	27
3	12
2	7
1	16
0#	13

#: indicates payment made in the same month as the month of shipment.

Census on India's Foreign Liabilities and Assets

4.24 At present, the Reserve Bank conducts a quinquennial Census of India's Foreign Liabilities and Assets with the latest in the series having already been launched to measure the IIP as on March 31, 1997. The Census currently underway has attempted to obtain information on short term trade credits, including suppliers' credits of up to 180 days. Moreover, it is understood that the future surveys of foreign assets and liabilities are proposed to be conducted on a quarterly basis. However, a major weakness of this database would be absence of the information on duration of trade credits. Furthermore, the surveys suffer from timeliness in the absence of clear legal authority behind these surveys.

Using the BIS and the OECD Data

4.25 As noted earlier, the BIS pools its database with that of the OECD to bring out data on short-term debt (defined as liabilities with an original maturity of one year or less plus repayments due within the next 12 months). The BIS database, however, contains following weaknesses as discussed earlier. The data (a) are not strictly based on the residency criterion (b) include foreign currency denominated debt held by residents (c) are restricted to only the OECD countries and (d) ignore banks outside the reporting areas while excluding non-bank sector altogether. Furthermore, a major weakness is a certain degree of double counting: 'liabilities to banks' and 'debt securities issues abroad', as mentioned earlier, contain an unidentified degree of overlapping. Similarly, the OECD data on trade credits include funds awaiting disbursement.

Overall Assessment

4.26 A review of the alternative methods indicates that a combination of the methods 4.2.1, 4.2.2 and 4.2.4 could be used to compile the desired information. The Group, therefore, felt that (i) the format prescribed by the DEIO to obtain information on outstanding import letters of credit and outstanding import bills may be extended to all banks with suitable modifications. (ii) in order to capture information on suppliers' credits in a comprehensive manner, the existing floppy based R-Return reporting may be amended to include an additional field on date of shipment. The revised software programme may be provided to critical ADs, (iii) the ex-ante information base provided by the methods 4.2.1 could be supplemented with the ex-post methods 4.2.2 and 4.2.4 to derive robust estimates, and (iv) information on buyers' credits already available within the Reserve Bank could be used to avoid any double counting in the database.

Chapter V

FII Investment in Debt Securities

5.1 Foreign Institutional Investors (FIIs) were initially permitted to invest in Indian securities markets in terms of Guidelines for Foreign Institutional Investment issued by the Government of India in September 1992. After notification of Securities and Exchange Board of India (SEBI) (Foreign Institutional Investors) Regulations, 1995 in November 1995, the registration is granted in terms of these regulations. At present, FIIs are allowed to invest in debt securities through a dual route of regular FIIs (70:30) and 100 per cent debt funds.

The 100 per cent Debt Route

5.2 Since November 19, 1996, FIIs have been permitted to make 100 per cent investments in debt securities subject to specific approval from SEBI as a separate category of FIIs or sub-account. FIIs investment in debt through the 100 per cent debt route is subject to an overall cap under the category of external commercial borrowings. Allocation of individual ceilings to FIIs or sub-accounts within the overall limit is made by SEBI on the basis of their track record or experience in debt markets. FIIs may invest - either proprietary funds or on behalf of broad based funds - in the following securities under the 100 per cent debt route:

5.1.1 Debentures (Non-Convertible Debentures, Partly-Convertible Debentures etc.)

5.1.2 Bonds

5.1.3 Dated Government Securities

5.1.4 Treasury Bills

5.1.5 Other Debt Market Instruments

5.2 As of November 1999, 23 approvals were given for 100 per cent debt investment for a total allocation of US $2,689 million. Of these, 5 FIIs have become active till date and the actual investment has been rather low as the rate of return taking into account domestic interest rates and the cost of forward cover has not been attractive as rupee interest rates have come down over the past years.

Data Reporting: Current Mechanism

5.3 The SEBI provides data on monthly inflows and outflows by the FIIs under both the routes separately. However, the existing data suffers from a few weaknesses:

5.3.1 Data under the regular (70:30) route are available on a total basis, i.e., without a break-up between debt and equity. At present, the whole of this investment is treated as equity.

5.3.2 Information on the maturity profile of investment between short-term and long-term is not available.

5.3.3 No information is available on outstanding stock of FII investment. At present, information on outstanding stocks is derived from cumulative inflows/outflows; however, the pitfalls of this method are obvious as neither market prices are taken nor account is taken of interest repatriation etc. At end-March 1999, for instance, the data on cumulative inflows/outflows (since inception) showed a net outflow of by FIIs. Accordingly, it is difficult to derive estimates of outstanding debt.

Data Reporting: Requirements

5.4 In view of the above, it is clear that the following data requirements on FII investment need to be developed:

5.4.1 The break-up of the regular FII investment in to debt and equity components for proper recording under external debt.

5.4.2 Information on the maturity profile of debt investment - both for the regular FIIs and the 100 per cent debt funds - in to short-term and long-term. This break-up should be provided on original as well as residual maturity basis.

5.4.3 Data on the market value of the debt investment broken up by maturity.

5.5 While valuation of traded securities could be at their market prices, existing norms in case of non-traded securities could be applied to non-traded securities. The existing norms issued by SEBI in regard to non-traded securities are at Annex.

5.6 At this point, it may be pertinent to note that another project on issues relating to non-debt flows is going, inter alia, in to issues relating to market valuation and the institutional mechanism in regard to equity liabilities. The recommendations of the project report on non-debt flows would be germane to the present group. This Group, therefore, is of the view that recommendations of the project report on non-debt flows in regard to institutional mechanism and the method of capturing the required information on equity stock could be adapted and applied to debt investment. Moreover, the implementation of the recommendations will be expedited if the debt securities issued by the Government and other entities have a unique identification code.

Chapter VI

Computerisation of Short-term Debt

6.1 In addition to issues relating to capturing of various components of data, issues of efficient data management attain a critical importance from the objective of monitoring and the time target for publishing debt estimates. In fact, efficient computerisation is a pre-requisite for pro-active management of external debt. One of the tools for debt management is the information on residual maturity of external debt which is dependent upon the quality of computerisation.

CS-DRMS Package

6.2 At present, the software developed by Economic and Legal Advisory Services Division (ELASD) of the Commonwealth Secretariat using Informix Relational Database Management System (RDBMS), viz. Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) is being used in the Reserve Bank and the Ministry of Finance to maintain external debt database for a significant component of external debt. CS-DRMS is a versatile software for handling data entry, processing, report generation and analysis of external debt data. For analysis, management tools module of CS-DRMS is useful. This is a menu driven application which is easily accessible from windows PCs. ELASD is giving all technical support for maintenance of this software. Periodically, new versions of the software are released and distributed free to users. A new version of this software (CS-DRMS 2000+), likely to be released during 2000, is expected to be fully windows based unlike the previous versions. Sophisticated techniques, data adjustment tools and new modules for capturing short-term debt are proposed to be added.

6.3 The Technical Group on External Debt which had undertaken a critical review of the CS-DRMS and alternative systems recommended that the CS-DRMS may continue to be the main database management system for India's external debt statistics. The Group had further recommended that continuous efforts may be made to upgrade the package and to improve technical skills of users through close interaction with the Commonwealth Secretariat. It also suggested that efforts could be made by the principal users to develop in-house database management systems to suit their particular requirements with an emphasis on capability for interfacing.

6.4 Given the versatility of the CS-DRMS, it would be useful to have all components of debt data on the CS-DRMS. The existing classification of India's external debt is presented under major heads of (i) mulilateral, (ii) bilateral (iii) international monetary fund (IMF) (iv) trade credit (v) commercial borrowing (vi) NRI deposits (above one year maturity), rupee debt and (vii) short-term debt. A significantly large part of this external debt database has been maintained on the Commonwealth Secretariat Debt Recording Management System (CS-DRMS).

Database on CS-DRMS

6.5 In particular, the database pertaining to the components multilateral, bilateral, trade credit and commercial borrowings, other than debt data on account of defence purposes, has been put on the CS-DRMS. Data on multilateral, bilateral and export credit component of bilateral credit database have been maintained with the Office of the Controller Aid Account and Audit (CAA&A), Ministry of Finance, Government of India. Data on trade credits (buyers' credit and suppliers' credit), and commercial borrowings (other than foreign currency convertible bonds (FCCBs) and self-liquidating loans) are being maintained with the Reserve Bank of India. In addition, data on non-government component of multilateral and bilateral that is subject to approval under ECB guidelines are also maintained with the Reserve Bank.

Components of External Debt not on CS-DRMS

6.6 Amongst the components of external debt which are not entered in the CS-DRMS are: IMF, export credit for defence purposes, FCCBs, self-liquidating loans, NRI deposits, defence component of rupee debt, data on trade credits of up to three years maturity with the ECD (buyers' credits of all maturities and suppliers' credits of 180 days and above). An assessment of computerisation of these data on CS-DRMS is set out below:

6.7 In the case of IMF credits, due dates are available with DEAP (RBI). The existing facility obtained from the IMF has been fully extinguished by June 2000 and, therefore, there would be no utility from putting the data on the CS-DRMS at the present juncture. However, as a matter of policy, the data could be provided to DESACS for completeness of database management.

6.8 For defence debt components like export credit for defence purposes, bilateral components of defence debt and defence rupee debt, an amortisation and drawndown schedule of the debt outstanding is available with the Ministry of Finance. Such data is regularly used in the Status Report for arrising at short-term debt by residual maturity and debt servicing projections. The MoF may provide these data to DEAP (RBI). The data so obtained could be maintained with the Office of CAA&A.

6.9 In the case of self-liquidating loans, the amortisation schedule is available with the Reserve Bank of India. As the scheme has since been discontinued, the outstanding stock at end-March 2000 was negligible (only US $ 26 million) and, therefore, need not be computerised on CS-DRMS.

6.10 In the case of FCCBs, two issues arise: the portion of FCCB due for amortisation within the next 12 months should be identified as short-term debt while at the same time the portion getting converted in to equity needs to be knocked off the external debt. Such data are being used for data compilation in the Status Report like estimating short term debt by residual maturity (based on the amortisation due within the next 12 months) as well as estimating debt outstanding position by deducting the converted and redeemed portion from the amount raised the MoF may provide such details to DEAP (RBI). Furthermore, the database should be maintained on the CS-DRMS.

6.11 A major component of external debt on which residual maturity details are not available is NRI deposits. Given the large number of branches and bank accounts, it has not been possible to collect details on a residual maturity basis. The Report of the Working Group on International Banking Statistics has recommended that information on residual maturity basis be collected for banks' liabilities including NRI deposits. For this purpose, the Report has recommended that a software should be provided to critical ADs for reporting. The issues relating computerisation of NRI deposits are being addressed by another project and hence are not discussed here.

6.12 Data on suppliers' credits of over 180 days and buyers' credits of all maturities are being maintained at present with the ECD. In case of short-term debt of original maturity more than six months and up to 3 years, a proper reporting system exists. The data are being collected through ECB 4 (approval information) and ECB 5 (actual transactions) returns from borrowers. At present, these data are being maintained in ECD, Central Office. However, the existing software in the ECD for maintaining these data have the following weaknesses:

6.12.1 Currency-wise details are not maintained.

6.12.2 Sectoral classification for outstanding debt according to the classification required for SDDS is not available.

6.12.3 Separation of data in to the categories 'up to 12 months' and 'more than 12 months and up to three years' is not available. Accordingly, remaining maturity for the component 'more than 12 months and up to three years' is not available.

6.12.4 System can not generate future projections of debt service payments.

6.13 In view of these limitations with the existing ECD software, the CS-DRMS software may be used for data entry and management of data of original maturity more than six months and up to 3 years. Database on these loans may, therefore, be shifted from the ECD central office to the DESACS. For this purpose, the ECD may forward the ECB-4 and ECB-5 returns to DESACS for data entry and for preparation of estimates. As the short-term outstanding balances are subject to an overall cap, DESACS may provide estimates to ECD through DEAP at regular intervals to enable ECD to effectively monitor the overall ceilings while giving fresh approvals.

6.14 In case of suppliers' credits of original maturity up to 180 days, no database is available at present. The Group's deliberations and recommendations on appropriate methods are contained in Chapter IV. The Group recommends that the database on suppliers' credits of up to 180 days derived from the modified R-Return floppies should be interfaced with the CS-DRMS.

Chapter VII

Short-term Debt by Residual Maturity

7.1 At present, India's short-term external debt is presented by the original maturity concept. The Technical Group on External Debt had, inter alia, as noted earlier, recommended that the residual maturity concept should be followed in the presentation of external debt statistics. This chapter evaluates the possibility of presenting India's external debt by residual maturity. Data availability on residual maturity is essentially a function of the reporting arrangements as well as the degree and quality of computerisation.

7.2 In the Indian context, as noted in the previous Chapter on computerisation, data reporting exists for most of the components except:

7.2.1 suppliers' credits of up to 180 days,

7.2.2 redemption of FCCBs either on repayment or conversion into equity and

7.2.3 FII investment in debt securities under the 70:30 route.

7.3 For these components, recommendations on reporting arrangements have been made in the previous chapters.

7.4 The quality of computerisation has also been discussed in detail in the previous Chapter. Data on the CS-DRMS are amenable to generating all types of information. The previous Chapter has recommended for data for various components (other than the FII investment in debt securities) should also be maintained on the CS-DRMS. Information on FII investments should be provided by SEBI. Once these arrangements are in place, the generation of residual maturity estimates in case of all components of external debt would be feasible.

Chapter VIII

Recommendations

8.1 The East Asian crisis has highlighted the need to monitor debt by residual maturity. However, the present data on short-term debt of India have certain weaknesses on account of definition and coverage. The Group, therefore, undertook an assessment of the various external transactions of short-term nature for their possible inclusion under short-term debt (paragraph 1.1-1.6).

8.2 Suppliers' credits of more than six months but less than three years and buyers' credits of less than three years are considered under 'short-term loan scheme' in terms of Foreign Exchange Management Act (FEMA). However, only credits of up to 12 months need to be considered as short-term debt for the purposes of external debt statistics following the international conventions. Accordingly, although suppliers' credits as well as buyers' credits of more than 12 months but less than three years are approved under 'short-term loan scheme' in terms of FEMA, they should be considered as medium- and long-term debt in external debt statistics. Notwithstanding the definition of short-term loans under FEMA, ECD (RBI) may provide data broken up into two categories: (I) up to 12 months and (II) above 12 months and up to three years. Only data up to 12 months need to be reckoned towards short-term external debt statistics (paragraph 2.4).

8.3 There are external transactions of very short-term nature. For example, overdrafts in nostro accounts and vostro account credits are of transitory nature reflective of payments settlement practices rather than a desire of the banks to avail any planned debt. Furthermore, the amounts involved are rather small. Accordingly, in view of the nature of the accounts and the amounts involved, the Group recommends that debits in nostro account and credits in vostro account need not be reckoned towards a country's external debt (paragraph 2.15).

8.4 On the overseas lines of credits obtained by banks, the Group recommends that the ECD (RBI) may devise a consolidated monthly reporting to DEAP (RBI) on the outstanding balances under the scheme as and when the scheme is activated. The outstanding balances under such credit lines may be included in the external debt statistics (paragraph 2.18).

8.5 The inclusion of 'medium- and long-term debt due over the next 12 months' in short-term debt is more of a definitional issue emanating from the residual maturity concept rather than a coverage issue. Since the data gathering system for such debt securities is well established, the Group recommends that necessary modification may be incorporated in the data processing system to generate residual maturity profile. The long-term debt securities with a residual maturity of upto 1 year may be treated as short-term debt (paragraph 2.21).

8.6 In an important recent development, the Inter-Agency Task Force (IATF) on Finance Statistics comprising the BIS, the IMF, the OECD and the World Bank have started publishing quarterly external debt data including short-term debt (by residual maturity). The Group felt that in computation of short-term debt, the national authorities (RBI/MOF) should follow the international best practices with respect to definition and coverage. Since the data released by international agencies, particularly on short-term debt, could have a market impact, periodic efforts should be made by national authorities to reconcile the different databases once the official database is put on the same conceptual framework as that of the international agencies (paragraph 3.25).

8.7 At present, under a fortnightly reporting system, major banks provide data, inter alia, on (a) outstanding L/Cs (sight as also usance) and (b) outstanding import bills (under L/C as also collection) pending payment by customers to the Department of External Investments and Operations (DEIO) in the Reserve Bank. The Group felt that it would be useful to extend this reporting format to all banks to increase the coverage and the reporting period could be on a monthly basis (paragraph 4.12).

8.8 These data reported by ADs sources need to be supplemented by surveys on trade finance aimed at major import industries. The success of this method would depend upon the number of permanent operators in trade credits. This would require the need to find out the composition of the trade operators in the Indian market and the degree of regularity with which big operators are active in the market. (paragraph 4.18).

8.9 The Group is of the view that India's external debt statistics should capture information on suppliers' credits in a comprehensive manner. In order to capture the entire amount of suppliers' credits, the existing floppy based R-Return reporting may be amended to include an additional field on date of shipment. The revised software programme may be provided to critical authorised dealers (ADs). The difference in the period between the date of shipment and date of payment could be taken as a measure of the period for which trade credits are outstanding. As this method would provide data ex-post, estimates for the more immediate period data could be prepared through a two-stage process. Once the actual data become available after a lag of six months, the estimates can be replaced with the actuals. (paragraphs 4.19-4.23).

8.10 The SEBI provides data on monthly inflows and outflows by the FIIs on account of both equity and debt. There is a need for data on FII investment separately into debt and equity under the 70:30 route. There is also need for data on maturity profile and market value of debt in respect of both the 100 per cent debt funds route as well as the 70:30 route. Since another project on issues relating to non-debt flows is looking, inter alia, in to issues relating to market valuation and the institutional mechanism in regard to equity liabilities, the recommendations of the project report on non-debt flows would be germane to the present group. This Group, therefore, is of the view that recommendations of the project report on non-debt flows on data capture mechanism on equity stock could be adapted and applied to debt investment (paragraph 5.6).

8.11 The Technical Group on External Debt which had undertaken a critical review of the CS-DRMS and alternative systems recommended that the CS-DRMS may continue to be the main database management system for India's external debt statistics. Amongst the components of external debt which are not entered in the CS-DRMS are: IMF credits, export credit for defence purposes, FCCBs, self-liquidating loans, NRI deposits, defence component of rupee debt, data on trade credits of up to three years maturity with the ECD (buyers' credits of all maturities and suppliers' credits of 180 days and above). Given the versatility of the CS-DRMS, it would be useful to have all components of debt data on the CS-DRMS (paragraphs 6.1-6.6).

8.12 In the case of IMF credits, due dates are available with DEAP (RBI). The existing facility obtained from the IMF has been fully extinguished by June 2000 and, therefore, there would be no utility from putting the data on the CS-DRMS at the present juncture. However, as a matter of policy, the data could be provided to DESACS for completeness of database management (paragraph 6.7).

8.13 For defence debt components like export credit for defence purposes, bilateral component of defence debt and defence rupee debt, an amortisation and drawdown schedule of the debt outstanding is available with the Ministry of Finance. Such data is regularity used in the Status Report for arriving at short-term debt by residual maturity and debt servicing projections. The MoF may provide these data to DEAP (RBI). The data so obtained could be maintained with the Office of CAA&A on CS-DRMS (paragraph 6.8).

8.14 In the case of self-liquidating loans, the amortisation schedule is available with the Reserve Bank of India. As the scheme has since been discontinued, the outstanding stock at end-March 2000 was negligible (only US $ 26 million) and, therefore, need not be computerised on CS-DRMS (paragraph 6.9).

8.15 In the case of FCCBs, two issues arise: the portion of FCCB due for amortisation within the next 12 months should be identified as short-term debt while at the same time the portion getting converted in to equity needs to be adjusted from the external debt. Such data are being used for data compilation in the Status Report like estimating short term debt by residual maturity (based on the amortisation due within the next 12 months) as well as estimating debt outstanding position by deducting the converted and redeemed portion from the amount raised the MoF may provide such details to DEAP (RBI). Furthermore, the database should be maintained on the CS-DRMS at DESACS (paragraph 6.10).

8.16 A major component of external debt on which residual maturity details are not available is NRI deposits. Since the issues relating to NRI deposits are being addressed by another project, the Group felt that it is better to leave the computerisation issues to the other Group (paragraph 6.11).

8.17 Data on suppliers' credits of over 180 days and buyers' credits of all maturities are being maintained at present in ECD, Central Office. In view of limitations with the existing ECD software, the CS-DRMS software may be used for data entry and management of data of original maturity more than six months and up to 3 years. Database on these loans may, therefore, be shifted from the ECD central office to the DESACS. For this purpose, the ECD may forward the ECB-4 and ECB-5 returns to DESACS for data entry and for preparation of estimates. As the short-term outstanding balances are subject to an overall cap, DESACS may provide estimates to ECD through DEAP at regular intervals to enable ECD to effectively monitor the overall ceilings while giving fresh approvals (paragraph 6.13).

8.18 In case of suppliers' credits of original maturity up to 180 days, no database is available at present. The Group's deliberations and recommendations on appropriate methods are contained in Chapter IV. The Group recommends that the database on suppliers' credits of up to 180 days derived from the modified R-Return floppies should be interfaced with the CS-DRMS (paragraph 6.14).

8.19 At present, India's short-term external debt is presented by the original maturity concept. The Technical Group on External Debt had, inter alia, as noted earlier, recommended that the residual maturity concept should be followed in the presentation of external debt statistics. Data availability on residual maturity is essentially a function of the reporting arrangements as well as the degree and quality of computerisation. At present, data reporting exists for most of the components except suppliers' credits of up to 180 days, redemption of FCCBs and FII investment in debt securities under the 70:30 route. For these components, recommendations on reporting arrangements have been made in the report. Data for various components should also be maintained on the CS-DRMS at DESACS. Information on FII investments should be provided by SEBI. Once these arrangements are in place, the generation of residual maturity estimates in case of all components of external debt would be feasible (paragraph 7.1-7.4).

Annex - A

Acknowledgements

A. International Institutions

1. **Bank for International Settlements, Basle**
   - Mr Rainer M. Widera
     Head of International Financial Statistics
     Monetary and Economic Department
   - Mr Karsten E.B. von Kleist
     International Financial Statistics
     Monetary and Economic Department

2. **Bank of France, Paris**
   - Mr. Philippe Mesny,
     Deputy Director,
     Balance of Payments Directorate

3. **Bank of Italy**

4. **Commonwealth Secretariat, London**
   (Economic and Legal Advisory Services Division)
   - Dr. Raj Kumar,
     Special Adviser (Economics)
   - Mr. Dev Usheree
   - Mr. John Corkil

5. **Eurostat**

6. **Organisation of Economic Co-operation and Development, Paris**
   - Ms. Jane Saint-Sernin,
     External Debt Unit, Development Co-operation Directorate,
     Reporting Systems Division

7. **United Nations Conference on Trade and Development, Geneva**
   (Programme on Debt Management and Financial Analysis System
   Division on Globalisation and Development Strategies)
   - Mr. Enrique Cosio-Pascal
     Chief,

- Mr. Pal Borresen
  Financial Economist,
- Mr. Sinan Al-Shabibi
  Economic Affairs Officer

B. Domestic Institutions

8. Government of India, Ministry of Finance

- Mr. B.K.Sinha,
  Deputy Director, ECB Division.

9. Bank of Baroda

- Mr. K.V.Achuthan,
  Senior Manager

10. Reserve Bank of India

- Mr. N.G. Akmanchi,
  Assistant Manager, Exchange Control Department
- Mr. S.B.Gogate,
  Assistant Manager, Department of Economic Analysis and Policy.

Annex - B

ECB 4

[Paragraph 7 B. 8 (i)]

Application for permission to raise short term foreign currency loan/credit (i.e. Loans not requiring Government's approval)

Instructions

1. The application complete in all respects should be submitted by the applicant to Chief General Manager, Exchange Control Department, Central Office, Reserve Bank of India, Mumbai 400 001 through an authorised dealer through which the import documents are to be received. No column should be left blank **or** omitted. Where any column/item is not applicable, write "Not Applicable" against it. Do not write "as per letter/document attached" except for, if necessary, against item IV of Part C.

2. Before forwarding the application to Reserve Bank, the authorised dealer should ensure that the applicant is its regular customer and is availing of credit facilities with it to its satisfaction. Authorised dealer should carefully scrutinise all the related original documents and ensure that the application is complete in all respects and strictly in order as per the underlying import contract and the Exchange Control regulations.

3. For filling up Part A - item III(b), the following names of industry may be used.

    1. Agriculture, Fisheries, Forest
    2. Air Transport
    3. Aluminum
    4. Automobiles
    5. Basic Metal Industries
    6. Chemicals & Chemical Products
    7. Coal & Lignite
    8. Computer Technology
    9. Telecommunication
    10. Electrical goods & machinery
    11. Electronic goods
    12. Mining
    13. Fertilizers
    14. Food processing
    15. Housing & Urban Development
    16. Industrial Development
    17. Iron and Steel
    18. Oil & Natural Gas
    19. Petrochemicals
    20. Power Generation
    21. Shipping
    22. Textiles
    23. Manufacturing & Machine Tools
    24. Construction & turnkey project
    25. Plantations
    26. Others (Specify)

Documentation

4. A copy each of the following documents, duly attested by authorised dealer, should be submitted:

   a) Letter of offer from the prospective foreign supplier/lender showing details of the credit/loan arrangements and its terms and conditions.

   b) A copy of the import contract/proforma/commercial invoice.

PART A - GENERAL INFORMATION

I. Name and address of the applicant company/firm (BLOCK LETTERS)

Name of the applicant company/firm

Address

II. Name and telephone number of the senior executive of the applicant company/firm.

Name of the senior executive of the applicant Co./firm

Telephone No.

III. a) Nature of business of applicant company/firm in India

Industry | Trading | PSU/Govt. Deptt.

b) If industry, type of industry

IV. Details of imports/exports of the applicant company/firm during the last three years :

(Amounts in lacs of rupees)

Year	Import	Export

V. Details of previous approvals obtained from RBI for short-term foreign currency loan(s) which are outstanding on the date of this application :

Sr. No.	Reg.No. & date	Amount sanctioned	Date of drawal/ expected date of drawal	Amount drawn	Balance amount yet to be drawn	Date of repayment	Amount repaid	Amount to be repaid	Monthly outstanding statement submitted upto (month)
1	2	3	4	5	6	7	8	9	10

PART B - INFORMATION ABOUT IMPORTS IN QUESTION

I. Particulars of commodity(ies) to be imported -

a) Commodity(ies) - Description and value :

b) Country of shipment :

c) Type of goods : Capital ☐ Non-capital ☐

d) Proposed import is : Freely Importable ☐ Under Valid Import Licence ☐

e) Value of import as per licence, if any :

II. Details of imports made/to be made :

A) Whether under LC/on collection basis : L/C ☐ On collection ☐

B) Terms of import i.e. FOB/CIF/C&F :

C) i) State Payment terms :

ii) Details of advance payment made, if any :

iii) Whether (ii) is covered under a bank guarantee? :

D) i) Due date of import bill :

ii) Is it outstanding or has been paid? :

iii) Extension for the due date is sought upto :

iv) Whether supplier/beneficiary of LC has agreed for (iii) above? :

v) What will be the total period of credit from the date of shipment to the proposed due date? Also indicate rate of interest payable for each block of period within total period of credit? :

E) If import has already been made, please state -

i) Date of Bill of Entry :

ii) Value of import stated in above Bill of Entry

iii) Whether Bill of Entry has been submitted to AD ? If not, Why ? :

F) If goods remain to be received -

i) Date of shipment :

ii) Expected date of arrival of goods :

iii) Whether goods have been sold on high seas or any such sale is contemplated ? :

PART C - CREDIT INFORMATION

I. i) Details of import LC against which credit/loan is sought -

Applicant	Opening bank	LC No. & date	Amount	Payment term as per LC	Expiry date of LC		Extension sought upto
					For shipment	For negotiation	
1	2	3	4	5	6	7	8

ii) Whether LC is required to be confirmed ? If so, please specify in percentage terms the charges payable therefor. :

II. i) If the proposed import is on "collection basis", the reasons therefor and the terms and conditions of the arrangement :

ii) Also, state as to who will receive the import documents

III. Terms and conditions of credit/loan -

i) Type of credit proposed to be raised (Please put ö in the appropriate box)

Suppliers credit (SC)	Buyers credit (BC)	Both SC&BC
☐	☐	☐

ii) Name and address of -

a) foreign supplier offering credit

b) foreign lender offering loan

c) Country of lender :

iii) Amount and currency of loan/credit :

iv) Rate of interest

v) Other charges if any, payable to lenders/AD : (Give details and percentage thereof)

vi) All-in-cost (Annualised in percentage terms) :

vii) Period of credit/loan : From................. To......................

viii) Expected Date(s) of drawal of loan/credit :

	Expected date(s)	Currency	Amount
a)			
b)			
c)			

ix) Schecule of repayment of credit/loan :

	Expected date(s)	Currency	Principal	Interest
a)				
b)				
c)				

x) Security, if any, for the loan

xi) Details of penal interest payable, if any, in case of defaults in repayment/debt servicing. :

IV. Reasons for obtaining credit/loan/extension of LC :

PART D - DECLARATIONS

We hereby certify that -

i) the import for which credit/loan is requested for vide this application is strictly in accordance with the current EXIM Policy;

ii) the proposed credit/loan is for financing the imports essentially required for our unit/for our type of activity as a trader;

iii) the import bill for _______________ is outstanding. The credit/loan to be raised will
(amount)
be utilised for the purpose for which it is being applied for vide this application;

iv) we shall not pay/reimburse/compensate, in any form whatsoever, any charge, interest, etc. other than that approved by Reserve Bank of India, for the above credit/loan;

v) the particulars given above are true and correct to the best of our knowledge and belief. No material information has been withheld and/or misrepresented which could affect Reserve Bank's decision on this application.

vi) Bills of Entry in respect of all our earlier imports, irrespective of whether they were covered under short term credit/loan or not, have been submitted to our authorised dealer(s) in compliance with the provisions of Exchange Control Manual, 1993 Edition.

____

(Signature of authorised Official of the borrower firm/company)

PLACE : ___________

DATE : ___________

Stamp

Name : ___________________

Designation : ___________________

(For use of authorised dealer)

We hereby certify that -

i) the applicant is our customer for the last __________ years and has a good track record with regard to compliance with the Exchange Control regulations. The applicant has been adhering to the discipline prescribed for imports and has been regular in submitting Bills of Entry to us;

ii) the proposed import transaction is bonefide one and in accordance with the current EXIM Policy, Exchange Control Regulations contained in Exchange Control Manual, 1993 Edition, the provision of UCP 500/URC 522 and FEDAI rules and regulations;

iii) we have scrutinised all the documents relating to the proposed import and the credit/loan to be raised therefor and have found the same as also the financing arrangement to be in order. The relevant particulars have been correctly reported in this application;

iv) the credit facilities extended to the applicant for the proposed import are within the credit limits sanctioned by us to the applicant company/firm and strictly in conformity with the guidelines issued by the Government of India and Reserve Bank of India from time to time;

v) the particulars given above are true and correct to the best of our knowledge and belief;

vi) we have so far neither allowed any remittance of principal and/or interest in respect of the import in question, to the supplier/lender nor given any consent to the overseas supplier/ lender for extension of credit.

vii) we hereby undertake that in the event of the loan/credit requested for vide this application being approved by Reserve Bank of India, we shall ensure that the loan amount is released to the suppliers of goods or his banker direct.

We recommend favourable consideration of the request.

____

(Signature of Authorised Official)

PLACE : ____________

DATE : ____________

Stamp of AD

Name : ________________

Designation : ________________

Name of bank/branch : ________________

ECB 5

[Paragraph 7 B. 8 (ii)]

Statement showing drawals, utilisation, repayments and outstandings of short-term foreign currency loan/credit for the month ended.....

Instructions

This statement should be completed and submitted by the borrower to the concerned Regional Office of Exchange Control Department, Reserve Bank of India duly certified by the authorised dealer. The details of actual utilisation of the loan/credit should be furnished by way of an annexure in the attached form together with a complete set of documents evidencing utilisation of loan/credit viz. Exchange Control copy of Bill of Entry for Home Consumption, Import Licence (where import is against a licence) and original commercial invoice.

1. i) RBI Registration Number : ☐☐☐☐☐☐☐☐

   ii) Amount of loan/credit approved : Currency.......... ☐☐☐ (For RBI use)

   Amount ____________________

2. Name and address of Borrower : ____________________

   ☐☐☐☐ (For RBI use)

3. Country of lender : __________ ☐☐☐ (For RBI use)

4. Amount outstanding as at the beginning of the month Currency............. ☐☐☐ (For RBI use)

   Amount ____________________

5. Drawdown Transaction during the month -

No.	Date of drawal	Currency	Amount	Balance Amount yet to be drawn at the end of the month

6. Utilisation during the month -

No.	Date	Particulars of imports@	Country	Currency	Amount utilised	Balance amount yet to be utilised at the end of the month

@ Capital goods/raw material/others

7. Remittance during the month - (Debt Servicing)

No.	Purpose	Date of remittance	Currency	Amount	Country to which sent
1	Principal	a) b) c)			
2	Interest	a) b) c)			

8. Name and Code of Authorised Dealer through which remitted : ____________________

9. Amount of loan/credit outstanding at the end of the month (To be repaid) : Currency ....

(For RBI use)

Amount ____________________

10. Import documents submitted in the month of : ____________________

We hereby certify that the particulars given above are true and correct to the best of our knowledge belief.

Place : __________

Date : __________

Stamp

____

(Signature of Authorised Signatory)

Name ____________________

Designation ____________________

(For use of Authorised Dealer)

This is to certify that the particulars furnished in the application have been scrutinised by us and found to be correct.

Place : ____________

Date : ____________

Stamp

____

(Signature of Authorised Official)

Name ______________________

Designation ________________

Name of bank/branch __________

ANNEXURE TO ECB 5

Details of utilisation of short-term foreign currency loan/credit

(This should be submitted with ECB 5 with a complete set of documentary evidence in support of utilisation of loan/credit, till such time the loan/credit has been fully utilised and all the relative documents submitted to RBI)

Report for the month ended.............................

1. Name of the borrower :

2. FCL Registration No. :

We state that we were permitted to raise a foreign currency loan/credit for ________ (amount)

from____ for the purpose

of____

We hereby certify that the amount of loan/credit has been utilised by us fully/partly for the approved purpose strictly in accordance with the terms and conditions of the loan approved by Reserve Bank of India.

The details of utilisation are as under :

a) Description of goods imported -

b) Value of imports -

c) Documentary evidence in support of above imports (Enclose the following documents) -

   i) Original Invoice No. & date -

   ii) EC copy of Bill of entry for Home Consumption (No. & date) -

   iii) EC copy of import licence, if any, (No. & date) -

   iv) Others (specify) -

We certify that the information furnished above is true and correct. No material information which may affect the RBI decision to allow the remittances connected with this loan/credit, has been withheld by us.

____
(Authorised signatory)
[Signature with date]

Place : ____________

Date : ____________

Name : ____________________________

Designation : _______________________

Full Address : _______________________

Authorised Dealer's Certificate

We hereby certify that the foreign currency loan/credit permitted to be raised by RBI vide its letter No.______________________________ dated ______________ and Registration No.__________________ has been raised by _________________________ (Name of the borrower) and utilised by the said borrower for the declared purpose of ____

We have verified all the relevant documents and our record connected with the utilisation of loan/credit and found these to be in order in accordance with the terms and conditions of approval granted by RBI as also the provision of Exchange Control Manual, 1993 edition and to our satisfaction.

Place : ____________

Date : ____________

Stamp

____
Signature of Authorised Official

Designation ________________________

Address ___________________________

[FOR OFFICE USE]

Joint BIS-IMF-OECD-World Bank statistics on external debt

India

	(in millions of US dollars)	STOCKS (end of period)						FLOWS (2)			
		1998	1999				2000	1998	1999	1999	
		Dec.	Mar.	June	Sep.	Dec.	Mar.	Year	Year	3rd Qtr.	4th Qtr.
External debt - all maturities											
A	Bank loans (3)	19,725	22,102	21,408	21,006	20,428		-290	927	-1,077	-363
B	Debt securities issued abroad	5,685	5,693	5,278	5,113	4,710	4,673	-319	-975	-223	-401
C	Brady bonds										
D	Non-bank trade credits (4)	3,021		2,905		3,108		-91	158		472
E	Multilateral claims	30,965	30,396	29,965	30,918	31,270	30,965	315	507	16	333
F	Official bilateral loans (DAC creditors)	16,259						80			
Debt due within a year											
G	Liabilities to banks (5)	7,742		8,467		8,705					
H	Debt securities issued abroad (6)	1,029	961	767	537	210	404				
I	Non-bank trade credits (4)			1,257		1,063					
Memorandum items :											
J	Total liabilities to banks (7) (locational)	21,636	24,111	23,128	22,803	22,182		-228	791	-1,032	-398
K	Total liabilities to banks (6) (consolidated)	19,335		22,616		22,037					
L	Total trade credits	7,232		7,408		7,439		525	-53		309
M	Total claims on banks (8)	25,500	24,579	24,269	24,647	25,077		4,147	-80	-6	606
N	International reserve assets (excluding gold)	27,341	30,193	31,212	31,164	32,667	35,720				

Notes :

1) From creditor and market sources, except for data on Brady bonds which are from debtor sources, all currencies included.
2) Flow data for items B, C, E and F; exchange rate adjusted changes for items A, D, J, L and

M; no data available for items G, H, I, K and N

3) From BIS locational banking statistics, which are based on the country of residence of reporting banks
4) Official and officially guaranteed
5) From BIS consolidated banking statistics, which are based on the country of head office of reporting banks and which include banks' holdings of securities
6) Including debt securities held by foreign banks, which are also included in line G
7) From BIS locational banking statistics, which are based on the country of residence of reporting banks and which include banks' holdings of securities
8) From BIS locational banking statistics, which are based on the country of residence of reporting banks

ANNEXURE - E

Questionnaire I/99

Obligation settlement related to imports of goods realized during the first quarter of 1999

NAME OF THE COMPANY :	
ADDRESS :	Street and number :
	City and post code :

IDENTIFICATION NUMBER :

Data in thousands of kunas

TOTAL I-III 1999 (1+2+3+4+5+6)

1. Imports based on advance payment
2. Compensation based imports
3. Imports based on payment with a letter of credit
4. Imports with the deferred payment up to 90 days
5. Imports with the deferred payment for more than 90 days*
6. Other imports (total)

Please describe below the most important categories of other import
(use additional sheet if necessary)

6.1

6.2

Transportation expenses structure related to the imports of goods

1. What mode of transport do you use in the import of goods (based on the real expenditure for the individual mode of transport in the total transportation expenditures or your estimation)?
   a) road ________ %
   b) sea ________ %
   c) railway ________ %
   d) other ________ %

2. What is the average share of auxilliary expenditures in the imports of goods (transportation costs, insurance, reloading, storage, loading, package costs, etc.) in the total value of goods at c.i.f. parity? If you import several different goods, please estimate the weighted average of the share of these expenses. You may alternatively use emphirical estimate.

   ____________________ %

3. Out of the total auxilliary expenditures related to the import of goods, the share of services provided by domestic enterprises amounts to:

   ____________________ %

Please send the completed questionnaire to the following address :

Croatian National Bank
Trg Burze 3
10 000 Zagreb
Research and Statistics Area
Zorica Raspudic-Golomeic
Tel.: 01/45 64 832
Fax : 01/45 50 854

Thank you for your assistance

* Please also include credit arrangements subject to the registration with CNB

Croatian National Bank
Research and Statistics Area
Statistics Department
BOP Statistics Division

Instructions for completion of the Questionnaires on the Obligation settlement related to imports of goods, and Collection of claims related to exports of goods

After completing general parts of the Questionnaire (basic information on the enterprise and person responsible for contact), the part of the Questionnaire related to the value of imports/ exports of goods during the observed period should be completed, as well as that concerning the Obligation settlement related to imports, that is, the Collection of claims related to exports.

Data should be expressed in thousands of kunas, converted form the original currencies in which payment of obligations on the basis of goods imports, that is, collection of claims on the basis of goods exports, was made, according to the midpoint exchange rate of the CNB on the date of the transaction. Data are entered by three decimals, so that decimal part of the amount is entered in the last three shaded boxes and integer part in the white boxes (e.g. if the total imports/exports during the observed period amounted to 12805624 kn (twelve million eight hundred and five thousand six hundred and twenty four kunas), the figure is entered in the box in the following way :

	1	2	8	0	5	6	2	4

Data that are recorded in the Questionnaire should be related to the imports/exports during the reporting period (flow of goods criterion), regardless of when the imports/exports were actually paid/collected (financial flow criterion). Two cases are mostly differentiated in practice (examples):

1. Payment/collection of payment based on the advance payment - during the first quarter, an enterprise realized imports/exports, although payment/collection of payment for the goods was actually made in the last quarter of the previous year. In that case, the value of the aforementioned imports/exports should be recorded in the Questionnaire covering the first quarter under item 1. "Imports/exports based on the advance payment/collection of payment", with no subsequent records in the last quarter of the previous year (that is, in the period when payment/collection of payment for the goods was actually made).

2. Imports/exports with deferred payment/collection of payment - during the first quarter, an enterprise imports/exports goods, although payment/collection of payment for the goods

will actually be made in the second quarter of the current year. The value of the transaction will be recorded in the Questionnaire covering the first quarter of the current year, under items 4.) "Imports/exports with deferred payment/collection of payment up to 90 days" or 5.) "Imports/exports with deferred payment/collection of payment for more than 90 days", with no subsequent records in the Questionnaire covering a succeeding reporting period. In entering data under item 5.), it is important to note that all the data on imports/exports with deferred payment/collection of payment for more than 90 days should be recorded in the Questionnaire, whether such arrangements are registered with CNB or not.

Other imports category (item 6) requests information on all specific transactions in financing imports/exports not stated under items 1 - 5) (e.g., long-term production cooperation, job processing, etc), and their values should be expressed under items 6.1 and 6.2.

In case you have any other questions, please contact Zorica Raspudic-Golomeic (telephone:01/ 4564 832, e-mail: Zorica.Raspudic@hnb.hr).

ANNEXURE - F

MONTHLY STATEMENT OF PREPAYMENTS ON ORDERS AND OF TRADE CREDITS, IN FOREIGN CURRENCIES AND IN FRENCH FRANC RECEIVED FROM/GRANTED TO FOREIGN COUNTRIES

(Amounts, rounded up or down, to the nearest unit)

Accounts "Customers"

Name of respontent:

SIREN number of respondent: |_______________|
5 13

1. Creation |___|
3. Cancellation
14

Reference date : |__|__|__|
DD MM YY
15 20

ECONOMIC CODES (NCL) TO BE CARRIED FOR WARD AT THE TOP OF THE COLUMNS OF AMOUNTS

	Customers and related accounts	Prepayments and down payments received
Goods crossing the French border	832	830
Other transations (merchanting, transportation and other services)	833	831

Currency code	Country code	Customers (debit balances, related accounts, other debit balances) NCL |__|__|__| 21 23	Prepayments and down payments received and customers (credit balances)* NCL |__|__|__| 24 26
27 30	31 33	34 48	49 63

Arithmetical totals
(to check data keyed in)

* Customers that have credit balances after deduction of prepayments and dawn payments received.

MONTHLY STATEMENT OF PREPAYMENTS ON ORDERS AND TRADE CREDITS, IN FOREIGN CURRENCIES AND IN FRENCH FRANC RECEIVED FROM/GRANTED TO FOREIGN COUNTRIES

(Amounts, rounded up or down, to the nearest unit)

Accounts "Suppliers"

Name of respontent:

SIREN number of respondent: |____________| 5 13

1. Creation |__| 14
3. Cancellation

ECONOMIC CODES (NCL) TO BE CARRIED FOR WARD AT THE TOP OF THE COLUMNS OF AMOUNTS

	Suppliers and related accounts	Prepayments and down payments received
Goods crossing the French border	832	830
Other transations (merchanting, transportation and other services)	833	831

Reference date : |__|__|__|
DD MM YY
15 20

Currency code	Country code	Suppliers (debit balances, related accounts, other debit balances) NCL |__|__|__| 21 23	Prepayments and down payments received and customers (credit balances)* NCL |__|__|__| 24 26
27 30	31 33	34 48	49 63

Arithmetical totals (to check data keyed in) |____________| |____________|

* Suppliers that have credit balances after deduction of prepayments and dawn payments made.

ANNEXURE - G

Survey of the Financing Pattern of Imports

1. Name of the importer

	1998-99 (April-March)	1999-2000 (so far)
	Amount in Rs. Crore	
2. Total Imports (a + b)		
a) Imports under L/C		
b) Imports through non-L/C route		

	1998-99 (April-March)	1999-2000 (so far)
	Amount in Rs. Crore	
3. Financing pattern of Imports (a to d)		
a) Imports financed by suppliers' credits of upto 180 days		
b) Imports under cash payments		
c) Imports under advance payments		
d) Imports on consignment basis		
e) Others (buyers' credits etc.)		

4. In case of imports financed by suppliers' credits of upto 180 days, please indicate the usual period (number of days) for which credit is available.

5. Please give information (date-wise) on date of shipment of imports and the corresponding date of payment for all imports made in 1998-99 and 1999-2000 so far.

Date of shipment	Date of Import Payment	Amount of Import Payment (Rs. crore)

ANNEXURE - H

(To be printed on White paper)

A.D. Code No. ________________
Form No. ________________
(To be filled by authorised dealer)

Serial No. ________________
(for use of Reserve Bank of India)

Amount remitted ________ Currency ________ Amount
Equivalent to Rupees ________
(To be completed by authorised dealer)

Form A1
(For Import Payments only)

Application for Remittance
in Foreign Currency

. . . .

I/We wish to purchase ______________________ ______________________
(Name of currency) (Amount in words)
through____for
(Name and address of the authorised dealer)
payment to____
(Name and address of the beneficiary of the remittance)
in payment of imports into India, detailed below:

Details of goods imported or to be imported into India

Section A : Import Licence particulars

Import Licence								Date of Issue			Date of expiry			Face Value of Licence	Amount to be endorsed (in Rs.) @
Prefixes		Licence	No.Suffiixes					Date	Month	Year	Date	Month	Year		
1	2		1	2	3	4	5								

@ Actual amount endorsed in rupees against each licence involved, should be stated under this column.

Note : If more than one licence is involved, particulars of all licences should be furnished. If the space is inadequate, a separate statement may be attached. The amount utilised against each licence should invariably be indicated.

Section B : Import particulars

Invoice Details				Quantity of goods	Desription of goods	Harmonised System of Classification	Country of origin of goods	Country from which goods are consigned	Mode of shipment (air,sea post, rail, river, transport port, etc.)	Date of shipment (if not known approximate date)
No. and date	Terms (c.i.f., f.o.b, c. & f.	Currency	Amount							

Section C : Other particulars

1. Details of forward purchase contract, if any, booked against the import

   ____________ (No. & date of Contract) ____________ (Currency and Amount of Contract) ____________ (Balance under the contract)

2. If remittance to be made is less than invoice value, reasons therfor (i.e. part remittance, instalment etc.) ____________________

   ____

. . . .

I/We hereby declare that the statements made by me/us on this form are true and that I/we have not applied for an authorisation through any other bank.

I/We declare and also understand that the foreign exchange to be acquired by me/us pursuant to this application shall be used by me/us only for the purpose for which it is acquired and that the conditions subject to which the exchange is granted will be complied with.

. . . .

(Signature of Applicant/Authorised Official)

Stamp

@ Name and Address of Applicant . . . . .
Importer's Code Number. . . . .

@ Nationality. . . . .

Date : ....

@ To be filled in capital letters

Note : For remittances covering intermediary trade, form A2 should be used.

Declaration to be furnished by Applicant

I/We declare that

a) the import licence/s against which the remittance is sought is/are valid and has/have not been cancelled by DGFT.

b) the goods to which this application relates have been* / will be* imported into India on my/our own account*

c) the import is on behalf of @____* and

d) the invoice value of the goods which is declared on this form is the real value of the goods imported* / to be imported* into in India.

If the import has been made — I/We attach the relative Customs-stamped Exchange Control copy of Bill of Entry* / Post parcel wrapper (for imports by post)*/Courier Wrapper (for imports through courier)*

or

If the import is to be made — I/We undertake to produce within three months to the authorised dealer the relative Customs-stamped Exchange Control copy of Bill of Entry* / Post parcel wrapper (for imports by post)*/Courier Wrapper (for imports through courier)*

* Strike out item not applicable

@ Where the import is on behalf of Central/State Government Department or a company owned by Central/State Government/Statutory Corporation, Local Body, etc. the name of the Government Department, Corporation etc. should be stated.

Date : ....

....

(Signature of Applicant/Authorised Official)

Space for comments of the authorised dealer

(While forwarding the application to Reserve Bank for approval, reference to Exchange Control Manual paragraph/A.D. Circular in terms of which the reference is made should invariably be cited. If any remittance application on account of the same import was referred to Reserve Bank earlier, reference to the last correspondence/approval should also be cited).

. . . .

(Signature of Authorised Official)

Name : . . . .

Date : . . . .

Stamp

Designation : . . . .

Name and Address of . . . .

Authorised dealer . . . .

Certificate to be Furnished by Authorised Dealer (Importer's Banker)

We hereby certify that

Put a tick (ö) in the relevant block

a) this payment is

- i) ☐ an advance remittance
- ii) ☐ in retirement of bills under Letter of Credit opened through us
- iii) ☐ against documents received through our medium for collection
- iv) ☐ on account of documents received direct by the applicant/s against undertaking furnished by the latter to submit Customs-stamped Exchange Control copy of Bill of Entry/post parcel/courier wrapper within three months
- v) ☐ on account of documents received direct by the applicant/s against Customs-stamped Exchange Control copy of Bill of Entry/post parcel/courier wrapper (attached) submitted by the latter
- vi) ☐ ____________________________________
  (any other case, to be explained)

b) all the Exchange Control regulations applicable to the remittance have been complied with

c) the payment to the supplier of the goods has been* / will be* made through ____________

____
(Name and address of the foreign bank)

We also certify/undertake that the relevant Customs-stamped Exchange Control copy of Bill of Entry or post parcel/courier wrapper.

* shall be verified by us within three months [vide certificate (a) (ii) and (iii) above].

* has been verified [vide certificate (a) (v) above].

* shall be obtained from the applicant/s within three months [vide certificate (a) (i) and (iv) above].

. . . .
(Signature of Authorised official)

Name : . . . .

Designation : . . . .

Name and Address of . . . .

Authorised Dealer . . . .

Stamp

Date : . . . .

---

*Strike out item not applicable

ANNEXURE - I

Valuation of Non-traded Securities: SEBI Guidelines

When a security is not traded on any stock exchange for a period of sixty days prior to the valuation date, the scrip must be treated as 'non-traded'. For the purpose of valuation of non-traded securities, the following principles under SEBI (Mutual Fund) Regulations, 1996 have been recommended by the SEBI:

a) Debt instruments shall generally be valued on a yield to maturity basis, the capitalization factor being determined for comparable traded securities and with an appropriate discount for lower liquidity;

b) While investments in call money, bills purchased under rediscounting scheme and short-term deposits with banks shall be valued at cost plus accrual, other money market instruments shall be valued at the yield at which they are currently traded. For this purpose, non-traded instruments - instruments not traded for a period of seven days - shall be valued at cost plus interest accrued till the beginning of the day plus the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instruments;

c) Government securities shall be valued at yield to maturity based at the prevailing market rate;

d) In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued on the same basis as applicable to debt instrument and an equity instrument. respectively. If after conversion, the resultant equity instrument is traded pari passu with an existing instrument, which is traded, the value of the latter instrument can be adopted after an appropriate discount for the non-tradability of the instrument during the period preceding the conversion. While valuing such instruments, the fact whether the conversion is optional should also be factored in.

e) In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures [as referred to in sub-paragraph (d) above] must be deducted to account for the period which must elapse before the warrant can be exercised;

f) Where instruments have been bought on 'repo' basis, the instrument must be valued at the resale price after deduction of applicable interest up to date of resale. Where an instrument has been sold on a 'repo' basis, adjustment must be made for the difference between the repurchase price (after deduction of applicable interest upto date of repurchase) and the value of the instrument. If the repurchase price exceeds the value, the depreciation must be provided for and if the repurchase price is lower than the value, credit must be taken for the appreciation.

Currently, the above procedure is being used for valuation of securities; however, the same is under review.