Enhancing credit flow to Indian exports

What is the issue?

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Domestic credit flow must be raised to revive the exports from India.

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What is the status of Indian exports?

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- After a prolonged period of decline and stagnation, there has been a pick-up in Indian exports in recent times due to a resurgence in global growth.
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- Exports of non-petroleum, oil and lubricants witnessed a year-on-year (y-o-y) growth of 15.6% during April-September 2018-19.
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- In order to sustain this resurgence in exports, a holistic framework is required which enhances –
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1. Trade competitiveness
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2. Promotes innovation
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3. Alleviates structural bottlenecks
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4. Bolsters availability of export finance
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5. Strengthens the institutional capacity for exports.
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- Among them, the most important element to sustain growth is a robust ecosystem for export financing.
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What are the bottlenecks?

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- Traditionally, the Indian economy has been bank-dominated, and banks continue to be the primary source of credit.
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- However, the growth in bank credit to the exports sector has been declining in recent times.
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- The share of outstanding credit extended by scheduled commercial banks to exporters in total non-food credit has almost halved from 6.1% in 2007 to 3.6% in 2017.
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- Further, outstanding export credit extended under the priority sector by foreign banks is witnessing the year-on-year decline of 46.8%.
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- The challenge is even more severe in the case of MSMEs.
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- Though it accounts for about 45% of manufacturing output and around 40% of total exports of the country, the sector is surrounded by financing bottlenecks.
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- The current credit supply for MSME is lower than its potential demand, which has resulted in a finance Gap equivalent to 11% of GDP.
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- Thus, bolstering the availability of export finance is critical to improving the competitiveness of India’s exports.
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What should be done?

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- **Modifying PSL norms** - Priority sector lending (PSL) norms could be tweaked so as to augment lending to the exports sector.
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- Export credit is currently eligible for inclusion in the priority sector lending targets of banks.
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- However, there is no mandatory sub-target for export credit.
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- Thus, the RBI could consider prescribing a sub-target for export credit within the existing 40% target for priority sector lending.
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- Flexibility in PSL norms can also help commercial banks perform potentially better in terms of meeting their PSL targets.
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- **Export Promotion Fund** (EPF) - This could be established by the government to ensure medium and long-term financing of exports, and also for financing export capacity creation.
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- Domestic commercial banks could contribute to the fund to the extent of their shortfall in stipulated priority sector lending to the exports sector.
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- This structure could be similar to the structure of the Rural Infrastructure Development Fund currently maintained by NABARD.
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- The eligible activities that could be supported by the EPF should focus on capacity-building, product development, R&D promotion, the creation of export infrastructure and other export support services.
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- The projects, made under it, should improve the competitiveness of Indian exporters while being consistent with the export growth strategy of the government.
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Source: Business Line

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