



Cabinet approves signing of (i) Inter-bank Local Currency Credit Line Agreement and (ii) Cooperation Memorandum relating to Credit Ratings by EXIM Bank under BRICS Interbank Cooperation mechanism

Posted On: 27 SEP 2017 7:12PM by PIB Bhubaneswar

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has given its approval to the signing of the (i) Interbank Local Currency Credit Line Agreement and (ii) Cooperation Memorandum Relating to Credit Ratings by Exim Bank with participating member banks under BRICS Interbank Cooperation Mechanism. As both the Agreement and the MoU are umbrella pacts, and are non-binding in nature, the Board of Directors of Exim Bank has been authorized to negotiate and conclude any individual contracts and commitments within their framework.

Impact

The Agreements will promote multilateral interaction within the area of mutual interest which will deepen political and economic relations with BRICS nations.

Signing of the Agreement will position Exim Bank in the international platform along with large development finance institutions, like CDS, VEB and BNDES. At an appropriate time, Exim Bank, leveraging this umbrella agreement, could enter into bilateral agreement with any of these member institutions to raise resources for its business. As and when an opportunity arises for co-financing in commercial terms, by any two member institutions (say India and South Africa), lending in single currency by both the institutions would also be possible.

Background

Exim Bank finances, facilitates and promotes India's international trade. It provides competitive finance at various stages of the business cycle covering import of technology, export product development, export production and export credit at pre-shipment and post-shipment stages and investments overseas.

Interbank Local Currency Credit Line Agreement

The initial Master Agreement on Extending Credit Facility in Local Currency under the BRICS Interbank Cooperation Mechanism had a validity of five years, which has expired in March 2017. It is understood that some of the member banks (like CDB and VEB; CDB and BNDES) have entered into bilateral agreements for local currency financing under the Master Agreement signed in 2012. Although the current conditions are not conducive to usage, it was useful to keep the same alive as an enabling feature in case a suitable opportunity materializes in future. Exim Bank raises resources in the off-shore market in diverse currencies and swaps to mitigate the risk. The umbrella Agreement would serve as an enabler to enter into bilateral agreements with member banks subject to national laws, regulations and internal policies of the signatories.

Cooperation Memorandum Relating to Credit Ratings

It would enable sharing of credit ratings amongst the BRICS member banks, based on the request received from another bank. This would be an ideal mechanism to mitigate the credit risks associated with cross-border financing. In future, such a mechanism could also serve as pre-cursor to the proposal of having an alternate rating agency by BRICS nations.

The Agreement and the MoU have also been highlighted in the BRICS Leaders Xiamen Declaration made in Xiamen, China on 4th September 2017.

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