Help for exports

Earlier articles in this *Bulletin*, in March and June 1961 and March 1962, reviewed the main features of U.K. export financing and export credit insurance, and described ways in which these were to be extended. The urgent need to encourage exports has prompted a fresh examination of the various facilities for exporters, including export finance.

In the Statement on the economic situation issued on the 26th October, the Government proposed to introduce a tax rebate on exports, set up a Commonwealth Exports Council, improve export credit facilities, and generally examine methods of assisting exporters. Further details were announced by the President of the Board of Trade and the Bank of England on the 27th January. Their purpose is to help firms already exporting to do more and to encourage firms not yet exporting to do so wherever practicable.

The Board of Trade introduced a wide variety of measures. The Commonwealth Exports Council has been formed under the chairmanship of Sir William McFadzean, the Chairman of the British National Export Council, and the activities of the two councils will be co-ordinated. The National Council itself is urgently examining the problems and ways it might help, for example, by arranging that large firms with established export organisations should sell complementary products on behalf of smaller ones; by encouraging the formation of more export clubs on the lines of some already centred on local chambers of commerce; and by helping to develop joint marketing organisations for certain products which are now exported little, if at all. The Government for their part will improve their services to exporters, and make them more widely known by a fresh publicity campaign. They will be prepared to pay up to half the cost of suitable projects of market research. They will help with the cost of approved trade missions, both inward and outward, and will give more support for participation in overseas trade fairs. Their overseas commercial services will be strengthened and wherever Government Departments regularly consult industry, as in the new Economic Development Committees, the whole range of export facilities will be promoted.

The Board of Trade also announced some extensions to the present arrangements whereby exporters are helped to obtain bank finance. For certain contracts, where bank credit is being provided for three years or more, the Export Credits Guarantee Department is prepared to guarantee a bank unconditionally against non-payment by the buyer. Business guaranteed in this way is financed by the banks at a fixed rate of interest, the present rate (which was first agreed in 1962 and is subject to review in 1967) being $5\frac{1}{2}$% per annum. Until now, the guarantees, and hence the fixed-interest rate, have been available only for capital goods and for contracts worth £100,000 or more. Under the new arrangements the guarantees are no longer restricted to capital goods and the minimum amount for any one contract eligible for cover has been reduced to £50,000.

At the same time the Bank of England announced a further change in the availability of export finance at the fixed rate. Until now the banks have provided export finance at the fixed rate where the credit was covered either by E.C.G.D. bank guarantees—as already described—or by E.C.G.D. financial guarantees, in the case of major projects involving payment over longer periods. (Financial guarantees were described in the *Bulletin* article in June 1961) In the case of financial guarantees the banks have financed the first five years or so of the credit, the remainder being provided by the Insurance Export Finance Company at a fixed rate of 6½% per annum. Now the London clearing and Scottish banks have agreed, in the national interest, to provide funds at the fixed rate of 5½% for the whole period of a financial guarantee contract, however long it may be. Bank credit made available in this way will, in future contracts, replace that previously provided by the Insurance Export Finance Company. Over the life of a credit, the average cost will generally be ½% to ¾% per annum less, depending on its length; the total saving on the cash price plus the cost of credit could be as much as 2%–3%.

To match this extension in bank facilities, the Bank of England are proposing similarly to extend their existing re-financing scheme. Under this scheme, medium-term credits for which E.C.G.D. guarantees had been issued, and which provided for deferred payments over periods longer than three years, have been eligible for re-financing at the Bank of England. Re-finance has been available, if required, at the rate of interest applicable to the original credit, either for the value of repayments due to be made by the buyer in the next eighteen months or for 30% of the loan outstanding, whichever was the greater; and the banks have been allowed to count assets re-financeable in this way as liquid when calculating their liquidity ratios. This re-finance facility will now be available to the banks for credits of whatever length E.C.G.D. is prepared to cover.

It is recognised, however, that despite this provision, the banks might not regard it as prudent to commit their resources in such long-term lending without some arrangement to enable them to obtain repayment, in case of need, after a reasonable period. To meet this difficulty, the Bank will stand ready to re-finance the whole of the outstanding balance of an export credit five years or more after its origin, provided that the credit is eligible under the basic scheme, and carries interest at the fixed rate. Re-financing will be effected at the rate applicable to the original advance; and it is understood between the Bank and the banks which have agreed to participate in this new arrangement that they will not seek re-finance simply to obtain an interest advantage.

The banks will not be entitled to regard the additional amounts re-financeable after five years or more as liquid assets when calculating their liquidity ratios though, of course, the eighteen months or 30% arrangement would continue to apply to the whole of a bank's export credits under the scheme. However, the Bank have given a general undertaking that, if any participating bank or group of banks should find themselves in particular difficulty as a result of their commitments on export credits, the Bank will be prepared to examine the position sympathetically to see whether the difficulty might be eased.

The banks participating in the re-finance schemes will be required to inform the Bank of England each quarter of the total amount they have lent, or have committed themselves to lend, which would qualify for re-financing under either scheme.

Where other banks are prepared to provide medium-term finance for exports on the same fixed-rate basis as the clearing and Scottish banks, the Bank will be ready to discuss the extension to them of similar re-financing facilities.