



IMPACT OF NEW SUBVENTION LIMIT ON INR PACKING CREDIT

By CA Vivek Gupta on October 18, 2024

Interest Equalisation Scheme (IES) for Rupee Credit



IES extended until December 31, 2024, from its earlier deadline of September 30, 2024



The fiscal benefits under the scheme for **each MSME** will be capped at Rs. **50 lakhs**.



MSMEs that have already availed IES benefits totaling Rs. **50 lakhs or more** as of **September 30, 2024**, will **not be eligible** for **additional benefits** during the extended period.

Changes Made in Interest Equalization Scheme

Criteria	Previous Guidelines	New Guidelines
Scheme Duration	Extended till September 30, 2024	Extended till December 31, 2024
Annual Net Subvention Cap for MSMEs	₹10 Crore per IEC, with a cap of ₹5 Crore till September 30, 2024	₹50 lakhs till December 31, 2024
Cap for Non-MSME Exporters (Manufacturer & Merchant)	₹2.5 Crore per IEC till June 30, 2024	Not mentioned in new guidelines
Eligibility for MSMEs who have already availed the benefit	Not explicitly mentioned	Not Eligible for further benefit

Cost Analysis of INR vs FCY Packing Credit

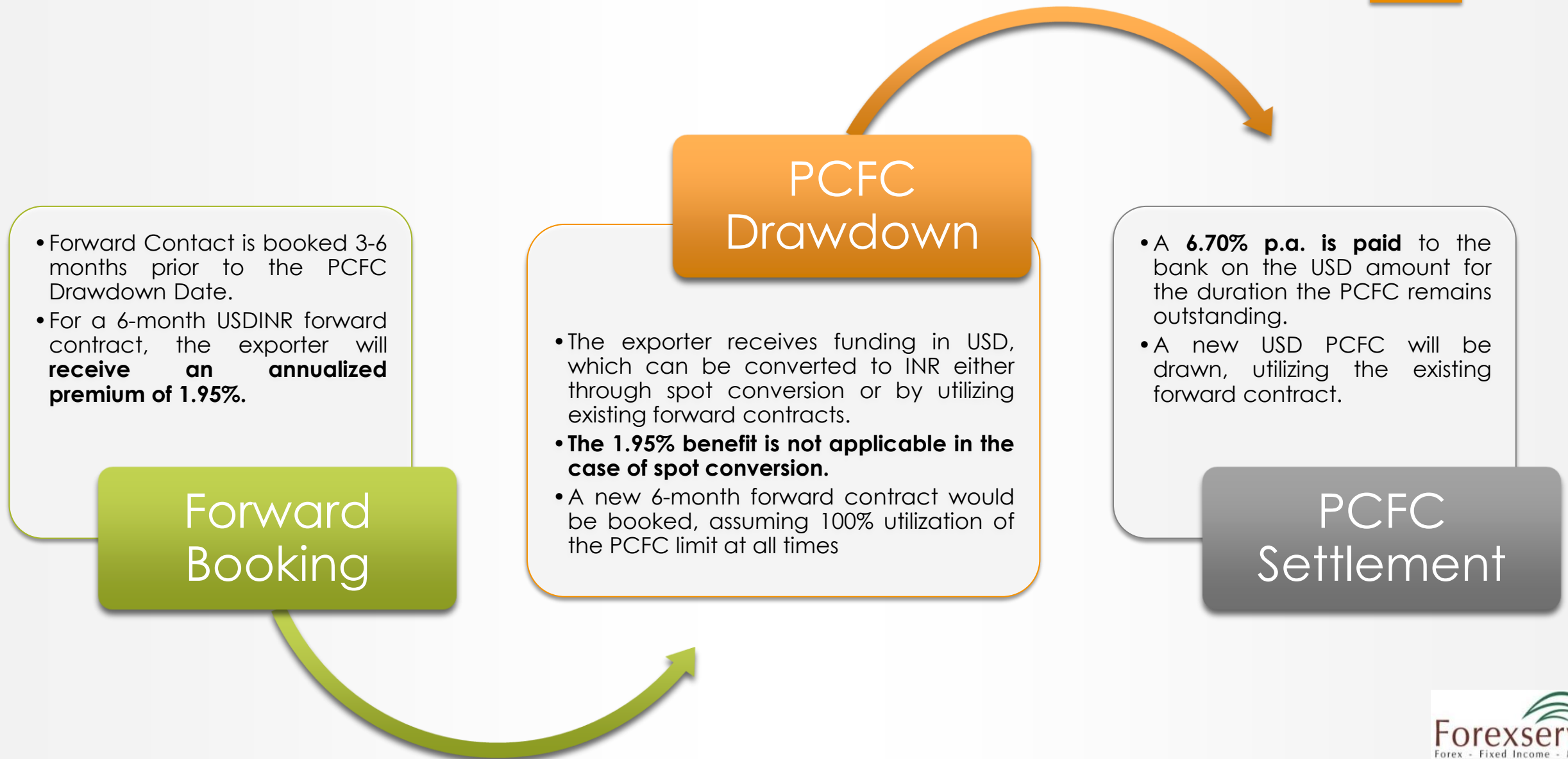
S. No.	Particular	INR Packing Credit		USD Packing Credit	EUR Packing Credit
		With Subvention	Without Subvention		
1	Base Cost	8.50%	8.50%	4.41%	3.04%
2	Spread	-	-	2.00%	2.50%
3	Total Cost (1+2)	8.50%	8.50%	6.41%	5.54%
4	Govt. Subvention	3.00%	-	-	-
5	6M Annualized Forward Premium	1.95%	1.95%	1.95%	3.62%
6	Net Cost (3-4-5)	3.55%	6.55%	4.46%	1.92%

Note:

1. 6M Term SOFR is used for USD PC

2. 6M EURIBOR is used for EUR PC

USD PCFC Process Flow



USD & EUR Interest Rate Swap



The IRS differential between USD and EUR is widening due to divergent monetary policies and economic indicators. Since the ECB began its rate-cutting cycle in June 2024, it has reduced rates by a total of 110 basis points, with markets expecting further cuts as EU inflation falls below the ECB's 2% target.

Meanwhile, the US Federal Reserve has only reduced rates by 50 basis points. Stronger-than-expected US economic data has lowered market expectations for additional rate cuts, contributing to a spike in the USD 2-year IRS, as depicted in the attached chart.

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Assess, design and implement RM policy covering market risk and operational guidance. The policy aims to quantify the risk for transparent decision to reduce ambiguity in decision making.



Thank you

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