Interest equalisation scheme (IES)

February 6, 2021

In News: IES was announced by the government in the Foreign Trade Policy (2015-20), the validity of which was extended by another year recently.

About Interest equalisation scheme (IES)

- Interest equalisation scheme (IES) or also known as interest subvention
- This scheme is typically used to encourage exporters – particularly from the SME sector.
- Since the cost of capital can vary across countries.
- WTO allows a high interest country to provide some level of help to the exporters who would be competing with their counterparts from low interest countries.
- In simple terms, this can be called an export subsidy.

Interest Equalisation Scheme (IES) for pre and post Shipment Rupee Export Credit and its expansion

- The interest Equalisation Scheme (IES) for pre and post shipment rupee export credit is being implemented by Directorate (DGFT) through commercial banks.The scheme for a period of 5 years (2015-2020).
- Interest Equalisation rate from 3% to 5% in respect of exports by the Micro, Small & Medium Enterprises (MSME) sector manufacturers under the Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit.
- The scheme is beneficial to labour intensive and employment generating manufacturing sectors like sectors such as textiles, engineering and leather who do exports of their goods.
- **The manufacturing activities under the scheme like** processed agriculture/food items, handicrafts, handmade

carpet (including silk), handloom products, coir and coir manufactures jute raw and yarn, readymade garments, Fabrics of all types, toys, sports goods, paper and stationary, cosmetics, toiletries, leather goods and footwear, ceramics, glass and glassware, medical and scientific instruments, optical frames, lenses, sunglasses, auto components industrial machinery, electrical and engineering items, etc. manufactured by SMEs.

- The Scheme is available to all exports under 416 tariff lines under Indian Trade Clarification (ITC)- Harmonized System (HS) Codes of 4 digits and exports made by MSMEs across all ITC(HS) codes.

Why does the government reduce interest rates for small savings accounts,PPF etc?

- Post demonetization fiasco by current government savings interest rates have been constantly in reducing phase ,since people started to use banking services like cards,net banking ,etc ,This resulted in more cash accumulated in the banks ,so banks for sometime have to shun the deposits in order to prevent more cash accumulating into it.
- Since there is stagnation in the IT sector ,job cuts,unemployment ,inflation is all time high ,real estate markets ,automobile markets are all time low ,The GDP is all time low since the current government came to power. This has resulted in less number of people buying property and automobiles and so are the ones who get loans from the banks .
- Huge mounting Non Performing assets of the banks in the forms of loan waivers,writing of loans ,bad loans forced the banks to spend less on interest rates