

GOVERNEMENT OF KERALA

Finance (P.U.A) Department

CIRCULAR

No. 10/90/Fin.

Dated, Thiruvananthapuram, 14th march, 1990

Sub:- Guarantee by the State Government on behalf of Public sector Undertaking/State Sponsored Bodies - Clarification- Issued.

- Ref:-
1. Circular No. 60/86/Fin. dated,8.8.1986
 2. Reserve Bank of India Letter No. Sy. d. PB/3288/ M-62/88/89 dated 5-1-1989 and sy. D.PB/3371/M-62-89/90 dated 4-1-1990

In annexure V to the Circular Cited, it was specified that for working capital requirements of Public Sector. Undertaking/ autonomous Bodies Government guarantee need be provided only for the limits that cannot be availed of on hypothecation of current assets by them. In spite of these instructions most of the National banks and Co-operative Banks insist on Government guarantee as collateral security even in case where there are sufficient assets available for hypothecation. Government invariably provide guarantee in such cases also.

2.The Reserve Bank of India, in their letter dated 4-1-1990 (copy appended referred to above has clarified that where State sponsored bodies offer adequate security, it is not necessary for the State Government to give any guarantee in favour of lending institutions. It has also been stated by the Reserve Bank of India that in such cases if banks are reluctant to grant advances without State Government guarantee, concrete case may be referred to Reserve Bank of India with complete details to enable them to look into the matter.

3.Accordingly it is hereby clarified that Government guarantee will no be provided as a collateral security to Public Sector Undertakings for availing of loans from Banks in case where there are sufficient assets to hypothecate. Guarantee will be provided only too the limits of working capital requirements which are over and above the limit of assets available for hypothecation as required in the circular cited as first paper above. In case where banks are insisting on 100% Government guarantee as collateral security even in case of working capital or other loans covered by hypothecation, the Administrative Department may take up the matter with Reserve Bank of India with all relevant details for further guidance. Such a review of Government guarantee vis- a vis availability of assets for hypothecation in respect of exciting and continuing guarantees, may also be undertaken by the concerned Administrative Departments before further extensions of period of guarantee are considered and they may take up the matter with Reserve Bank of India where guarantee is provided security and are not really required

4. This circular will take effect from 1-4-1990

R. NARAYANAN,
Commissioner & Security (Finance)

To

The Accountant General (A & E)/ (Audit), Kerala, Thiruvananthapuram.
All Heads of Department.
All sections/ Department of Secretariat
The Chief Executives of all Public Sector Undertakings/ Autonomous. Bodies.
The P.S. to Minister (Finance)
The Stock File

Copy of letter No. Sy. D. PB/3371M.62-89/90 dated 4-1-1990 from S.R. Shetty, Assistant Secretary, Reserve Bank of India, Central Office, Secretary's Department, Central Office Building, Bombay addressed to the Commissioner and Secretary (Finance) Government of Kerala, Finance (PU.A) Department, Thiruvananthapuram.

State Government guarantees for loans to State Sponsored Bodies

Please refer to our letter No. 7367/PU.A3/89Fin. dated 12-7-1989 wherein you have raised certain issues of guarantee by the State Government for loans to State sponsored bodies. We advise that we have carefully considered your request for Reserve Bank of India prescribing ceiling of interest rate and period of guarantee in respect of loans granted under various sectors like Transport, Electricity, Sick units etc. wherein participation of Commercial Banks and Financial Institutions are involved, so as to restrict the contingent liability of the State Government, but having regard to all relevant factors we regret, it would not be possible for bank to make any change in its existing guidelines issued to Governments with regard, to issue of guarantee. In this connection, we state that where state sponsored bodies offer adequate security, it is not necessary for State Government to give any guarantee in favour of lending institutions, If, any such cases, bank etc., are reluctant to grant advances to such bodies without State Government guarantee concrete cases please be referred to us with complete details to enable us to look in to the matter.

Yours faithfully,
(sd.)
S. R. SHETTY,
Assistant secretary.