

Banks must turn towards global trade-finance instruments: RBI

Our Bureau Mumbai | Updated on May 09, 2019 Published on May 09, 2019

1



The overdependence of local banks on overseas branches through less standardised instruments limits the scope of trade-credit operations

Banks need to expand their global banking relationship and shift towards globally accepted trade finance instruments instead of indigenous instruments (such as letter of undertaking/ letter of credit), according to a Reserve Bank of India paper.

This, however, may push up costs, the paper added. Domestic banks largely depend on their own branches or branches/subsidiaries of other domestic banks, which have been accepting non-standardised trade instruments – LoUs and LoCs – for arranging trade credit.

“The overdependence of domestic banks on their overseas branches through less standardised trade credit instruments limits the scope of their trade credit operations,” said Rajeev Jain, Dharendra Gajbhiye and Soumasree Tewari from the RBI’s Department of Economic Policy and Research.

Overseas network

Incidentally, the drying up of trade credit disbursed through domestic banks in the aftermath of prohibition of LoUs/LoCs by the Reserve Bank of India in March 2018, confirms that their narrow overseas network base is a binding constraint for trade credit business, they added.

The paper observed that both demand and supply-side dynamics influence the flow of cross-border trade credit to India.

“The fall in trade finance intensity in recent years is clearly an indication of supply-side constraints. In particular, the financial health and size of overseas network of banks operating in India matter for trade credit,” the authors said.

Empirical evidence suggests that the positive impact of import volumes on trade credit flows makes short-term external debt one of the critical variables to be monitored for external sector vulnerability. This is especially pertinent when import payments are driven by higher international commodity prices, they elaborated.

As tight global financial conditions are found to impede trade credit flows, the authors felt that policy efforts towards strengthening banks’ overseas business network may make these flows more resilient.

Published on May 09, 2019



The advertisement features a dark blue background. On the left, there is a stack of BusinessLine e-papers. The main text in the center reads "Save 61% on BusinessLine e-Paper" in white, with "Now at just ₹ 2,100 ~~₹ 799*~~ per year" below it. The price "₹ 799*" is highlighted in yellow. On the right, there is an orange "SIGN UP" button. The BusinessLine logo is visible in the top left and top right corners of the ad.

[RBI and other central banks](#) [banking](#)

1

COMMENTS



Next Story

South Indian Bank Q4 net profit falls 38%

You May Like

Sponsored Links by Taboola

5 Main Skills You Need To Learn From Top Data Scientists

UpGrad & IITB

AI & Machine Learning Professionals command huge premiums in salaries. Become an Expert. Start Learning in 2019!

Amity University Online

Dont Miss A Ready 3BHK From Just Rs. 23.40 Lacs At Coimbatore

Provident Housing

Why Every Traveler Needs To Take This Trip to Malaysia

Tripoto for Malaysia Airlines

