



# RBI must resume issuing LoUs, LoCs

Posted at: 07/08/2018

## **Highlights**

- The Reserve Bank of India's decision to discontinue the issuance of Letters of Undertaking (LoU) and Letters of Credit (LoC) for trade credit was a "knee-jerk reaction" (a quick reaction that does not allow you time to consider something carefully) to the Punjab National Bank fraud case and the facility should be restored at the earliest, the Parliamentary Standing Committee on Commerce said in a report.
- The Committee also noted that all the stakeholders it consulted, representing trade and industry, unanimously said that the discontinuation of the LoU and LoC facility had resulted in a 2-2.5% increase in the cost of credit.
- This will affect the cost competitiveness of the country's trade and industry and have a cascading effect on jobs. The loss of jobs is something the country can ill-afford.
- The Committee said that RBI should have engaged in more consultations with stakeholders on the matter before resorting to discontinuation of LoUs and LoCs.
- And also opined that LoU/LoC should be restored at the earliest albeit with proper safeguards as restoration assumes more significance in the face of the fact that the content of imports is over 20% of India's total exports.

The Committee is concerned that such an approach has the dangers of making banking services elitist and subservient to a few large corporates leaving out the vast majority of MSME units.

Source: [The Hindu](#)

