Cross-border Trade Credit: A Post-Crisis Empirical Analysis for India

The paper profiles trade credit extended by domestic and foreign banks to Indian importers by focusing on its size, composition and cost pattern. Using a panel data of 55 banks for 2007-08:Q1 to 2016-17:Q4, the paper finds that both demand and supply-side factors influence the flow of trade credit. The paper suggests that higher imports – whether due to high prices or volumes – lead to an increase in trade credit. From the supply-side perspective, financial health of banks, cost of trade credit and size of their overseas network seem to influence their trade credit operations. The empirical findings of the paper suggest that the banks need to expand their global banking relationship and shift towards the use of globally accepted trade finance instruments instead of indigenous instruments (i.e., LoUs /LoCs) which, however, may push up the cost.