

# LoU ban: Policymakers need to be careful, says Sanyal

**PRESS TRUST OF INDIA**  
**New Delhi, March 14**

**A DAY AFTER** the Reserve Bank of India (RBI) banned banks from issuing LoUs, finance ministry's principal economic advisor Sanjeev Sanyal on Wednes-

day said no issue can be dealt in silos and policymakers have to be careful that blocking of one route does not spread to rest of the system.

The RBI on Tuesday barred banks from issuing guarantees in the form of letters of under-

taking (LoU), as it clamped down on the import financing route used by fugitive jeweller Nirav Modi and his uncle Mehul Choksi for allegedly committing the country's biggest bank fraud. Besides, it also banned issuance of letters of comfort,

which, like LoUs, are used by importers to fund their overseas purchases.

Asked if the RBI decision is an overreach action, Sanyal said, "I am not in a position to comment on RBI decision they have just introduced. But, the general

point remains that you have to take a nuanced view of these things in particular because you are not dealing with a silo system. You are dealing with interconnected ecosystem and if you block off oxygen in one part it rapidly spreads to rest of the sys-

tem. So, you have to take care of these things. So, while I do not wish to comment on specific decision, this is something that policymakers have to be careful about," Sanyal said at an AIMA event here.

As a trade financing measure, overseas banks usually lend to importers based on the LoUs issued by their banks. And

the raised money used in making payment to offshore suppliers in foreign currency.

The change in regulations may hit import dependent businesses and trade that are often reliant on LoUs to get bank guarantees.

Sanyal said the government is carrying out some very important measures to deal with

bad loans by auctioning off some big companies. He said the more immediate thing that needs to be done to fix governance in banks is by strengthening the regulation and supervision. "We need to do something about the board of the banks," he said, adding that the the Banks Board Bureau was a step in that direction.