Comment: IMF bank tax bad for trade finance

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Bob Lyddon, managing director of the IBOS Association, which fosters inter-bank cooperation, comments on the proposed IMF bank tax plans and their potential effect on trade finance.

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The IMF's proposals for new taxes follow directionally those floated by the US and UK governments, and impose a logic of making banks operate on a high-scale/low-risk model i.e. to concentrate on domestic banking in the countries that bailed them out.

This is a major threat to international trade finance, because banks are being directed towards exclusive concentration on only a very few "home markets".

Such a bank might then not even trouble to maintain a Political Risk limit for exposure on a given foreign country, nor might it actively develop Correspondent Banking relationships with the commercial banks in that country or approve Letter of Credit Conformation lines for them: these constitute the bedrock of any trade finance capability towards that country.

Likewise, with fewer banks having an international network, it will be more difficult to access trade services from a bank's office in your territory.

Restricted supply means reduced competition and choice, higher cost, and rationing of supply by banks to favour customers with whom they already have a major relationship, as well as the simple difficulty of getting information about how to finance trade.

None of this can be good news for either exporters or importers at a time when they want to lead the world economy out of recession, and are exploring sourcing and sales opportunities on a global scale.

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