AVENUES FOR IMPROVING FOREIGN TRADE FINANCING INSTRUMENTS IN STRENGTHENING THE FINANCIAL SECURITY OF COMMERCIAL BANKS

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Abstract: *This article examines the theoretical and practical aspects of the effective use of foreign trade financing instruments in strengthening the financial security of commercial banks. In the context of expanding foreign trade operations, the growing complexity of the international settlement system, currency exchange rate fluctuations, and increasing counterparty risks, instruments such as letters of credit, bank guarantees, export-import loans, factoring, forfeiting, and digital trade finance are becoming strategically important for banks. The article establishes that while foreign trade financing instruments diversify bank revenues, expand the client base, and support export-import activities, they also give rise to credit, currency, liquidity, documentary, operational, and concentration risks. Based on the research findings, the article proposes ways to strengthen the financial security of commercial banks, including diversifying foreign trade financing instruments, digitizing documentary operations, mitigating currency risks, monitoring off-balance sheet liabilities, and enhancing compliance control.*

Keywords: *commercial banks, financial security, foreign trade financing, trade finance, letter of credit, bank guarantee, export-import credit, factoring, forfeiting, currency risk, digital trade finance, compliance control.*

Introduction

In the global economy, the expansion of foreign trade operations, the growth in the volume of international settlements, and the deepening integration of financial markets are increasing the importance of trade finance instruments in the activities of commercial banks. The financial security of export-import contracts, the delivery of goods and services, the timeliness of payments, and the fulfillment of counterparty obligations depend largely on the effectiveness of the financial instruments offered by banks. For this reason, trade finance is no longer just a simple banking service but is emerging as a strategic area of activity that directly affects the financial security of commercial banks.

The consistent expansion of foreign trade relations in Uzbekistan's economy further increases the relevance of this field. The growth in foreign trade volume requires banks to effectively utilize letters of credit, bank guarantees, export-import loans, international money transfers, factoring, forfeiting, and other trade finance instruments. These instruments serve to strengthen trust between exporters and importers, reduce payment and delivery risks, ensure liquidity for trade transactions, and support the foreign economic activities of the real sector [1].

However, foreign trade financing instruments are not merely a source of income for banks. They also create additional risks on banks' balance sheets and off-balance sheet liabilities. Specifically, export-import loans affect the quality of the loan portfolio and capital adequacy; letters of credit and bank guarantees impact the volume of contingent liabilities; factoring and forfeiting operations influence the quality of accounts receivable and counterparty risk; and international settlements affect liquidity and operational stability. Furthermore, the fact that foreign trade operations are often conducted in foreign currency heightens currency risk.

Instability in the international financial environment, geopolitical conflicts, disruptions in logistics chains, restrictions on international payment systems, and exchange rate fluctuations are amplifying the risks for commercial banks associated with foreign trade operations [2]. In such conditions, to strengthen the financial security of commercial banks, it is essential to develop foreign trade financing instruments not as a simple type of service, but as a mechanism integrated with comprehensive risk management, liquidity management, compliance control, and digital monitoring systems.

The purpose of this article is to scientifically substantiate the role of foreign trade financing instruments in strengthening the financial security of commercial banks, and to develop priority directions for their improvement. The article focuses on letters of credit, bank guarantees, export-import loans, factoring, forfeiting, currency risk mitigation tools, and the opportunities of digital trade finance.

Literature Review on the Topic

In international literature, foreign trade financing instruments are interpreted as a set of financial services that ensure the continuity of export-import operations, reduce payment and delivery risks, and reinforce trust in international settlements. The International Chamber of Commerce defines trade finance as a system of services that enables enterprises to finance trade flows, mitigate risks, and conduct settlements [1]. Meanwhile, research from the Bank for International Settlements characterizes foreign trade financing operations as short-term, related to the movement of real goods, and relatively standardized banking instruments [2].

In international practice, documentary letters of credit, bank guarantees, export-import credits, factoring, and forfeiting are considered the primary instruments of foreign trade financing. While letters of credit and bank guarantees ensure payment security between the importer and exporter, export-import credits support the financial continuity of trade deals. Factoring and forfeiting, on the other hand, increase the liquidity of exporters by converting their deferred payment claims into cash flow. However, these instruments also create credit, currency, counterparty, country, liquidity, off-balance sheet liability, and operational risks for commercial banks.

In recent years, digital trade finance instruments have gained particular importance in banking practice. Electronic document circulation, digital letters of credit, electronic invoicing, blockchain-based trade finance platforms, and automated compliance controls enhance the speed, transparency, and traceability of foreign trade operations. At the same time, these processes also introduce new risks related to cybersecurity, technological disruptions, data integrity, and digital compliance.

In local studies, F.Kh. Akhmedov focused on the issues of reducing currency risk in documentary letters of credit, foreign exchange operations, and foreign trade lending within the practice of commercial banks servicing foreign trade [5]. Sh.I. Khudaynazarov, in turn, substantiated the importance of export credits, guarantees, export insurance, and factoring instruments in export financing [6]. While these studies illuminate specific aspects of foreign trade financing instruments, the issue of their comprehensive improvement as a mechanism for strengthening the financial security of commercial banks has not been sufficiently developed.

Research Methodology

This study employed a systematic approach, classification, comparative analysis, factor analysis, and logical generalization methods. The systematic approach allowed for the examination of foreign trade financing instruments as a complex mechanism influencing the financial security of commercial banks. In this context, letters of credit, bank guarantees, export-import loans, factoring, forfeiting, international settlements, and currency operations were analyzed in interconnection with the bank's capital, liquidity, asset quality, profitability, and risk resilience.

Based on a classification method, foreign trade financing instruments were grouped into three categories: on-balance-sheet instruments, instruments that create off-balance-sheet liabilities, and intermediary and commission services. Through comparative and factor analysis, the positive and negative impacts of these instruments on a bank's financial security were identified. The positive impacts were determined to be revenue diversification, customer base expansion, and support for export-import operations; while the negative impacts were identified as increased credit, currency, liquidity, counterparty, documentary, operational, and concentration risks.

The methodological basis of the study was focused on evaluating foreign trade financing instruments using an "instrument — risk — bank financial security — area for improvement" chain. This approach serves to identify the risks that arise from the use of trade finance instruments in commercial banks, assess their impact on financial security, and develop scientific and practical proposals for instrument diversification, digitalization, strengthening compliance control, and improving the risk management system.

Analysis and Results

Foreign trade financing instruments have a dual significance in the operations of commercial banks. On the one hand, they enable banks to increase interest and commission income, expand their client base, service export-import operations, and support the entry of real sector entities into international markets. On the other hand, these instruments create an additional burden on the bank's balance sheet, off-balance sheet liabilities, foreign currency position, liquidity flows, and risk management system. Therefore, when evaluating foreign trade financing instruments as a mechanism for strengthening a bank's financial security, it is necessary to consider not only their profitability but also their level of risk.

Analysis shows that foreign trade financing instruments can be divided into three main groups based on their impact on a bank's financial security. The first group includes instruments directly reflected on the bank's balance sheet: export-import loans, factoring, and forfeiting operations. These instruments increase the volume of bank assets, generate interest income, and support client liquidity. At the same time, they affect credit risk, currency risk, the quality of accounts receivable, and capital adequacy. The second group is composed of instruments that create off-balance sheet liabilities: letters of credit, bank guarantees, and standby letters of credit. They provide payment guarantees and build trust between counterparties, but can create pressure on bank liquidity and capital through potential payment obligations. The third group includes intermediary and settlement services: international money transfers, collections, currency exchange operations, documentary checks, and compliance services. These services increase commission income but can heighten operational, documentary, compliance, and currency risks.

Table 1.

The Impact of Foreign Trade Financing Instruments on the Financial Security of Commercial Banks

Instrument Group	Key Instruments	Positive Impact for the Bank	Potential Risks to Financial Security	Areas for Improvement
On-Balance Sheet Instruments	Export-Import Loans, Factoring, Forfaiting	Increased interest income, supported customer liquidity, and financed export-import activities	Credit risk, currency risk, quality of accounts receivable, pressure on capital adequacy	Strengthening credit scoring, hedging currency risk, and introducing receivables monitoring
Off-Balance Sheet Liabilities	Letters of Credit, Bank Guarantees, Standby	Payment guarantee provided, counterparty	Conversion of contingent liabilities into actual	Setting limits, conducting stress tests, and

	Letters of Credit	confidence increased, and commission income generated	payments, pressure on liquidity and capital	diversifying the guarantee portfolio
Intermediary and Settlement Services	International settlements, collections, currency exchange operations, documentary review	Increased commission income and expanded comprehensive services for clients	Operational, documentary, compliance, and currency risks	Electronic document management, automated compliance, and staff qualification enhancement
Digital Trade Finance Services	Digital letters of credit, electronic invoicing, trade finance platforms	Accelerated processes, increased transparency, and reduced operational costs	Cybersecurity, technological disruptions, data reliability	Implementing cybersecurity controls, platform integration, and digital audit mechanisms

As shown in Table 1, each foreign trade financing instrument affects the bank's financial security differently. While export-import loans and factoring operations increase bank revenues, they also intensify credit risk and impact asset quality. Letters of credit and bank guarantees increase the bank's potential payment burden through off-balance-sheet liabilities. Although international settlements and foreign exchange operations enable comprehensive customer service, documentary and operational errors, non-compliance with regulatory requirements, and exchange rate fluctuations can negatively affect the bank's financial stability.

From this perspective, commercial banks must manage foreign trade financing instruments not only as a means of expanding their range of services but also as an object of risk management related to ensuring financial security. To this end, it is advisable for banks to introduce internal limits on the trade finance portfolio, counterparty ratings, country-specific risk limits, currency position controls, stress tests for off-balance-sheet liabilities, and a compliance monitoring system for documentary operations.

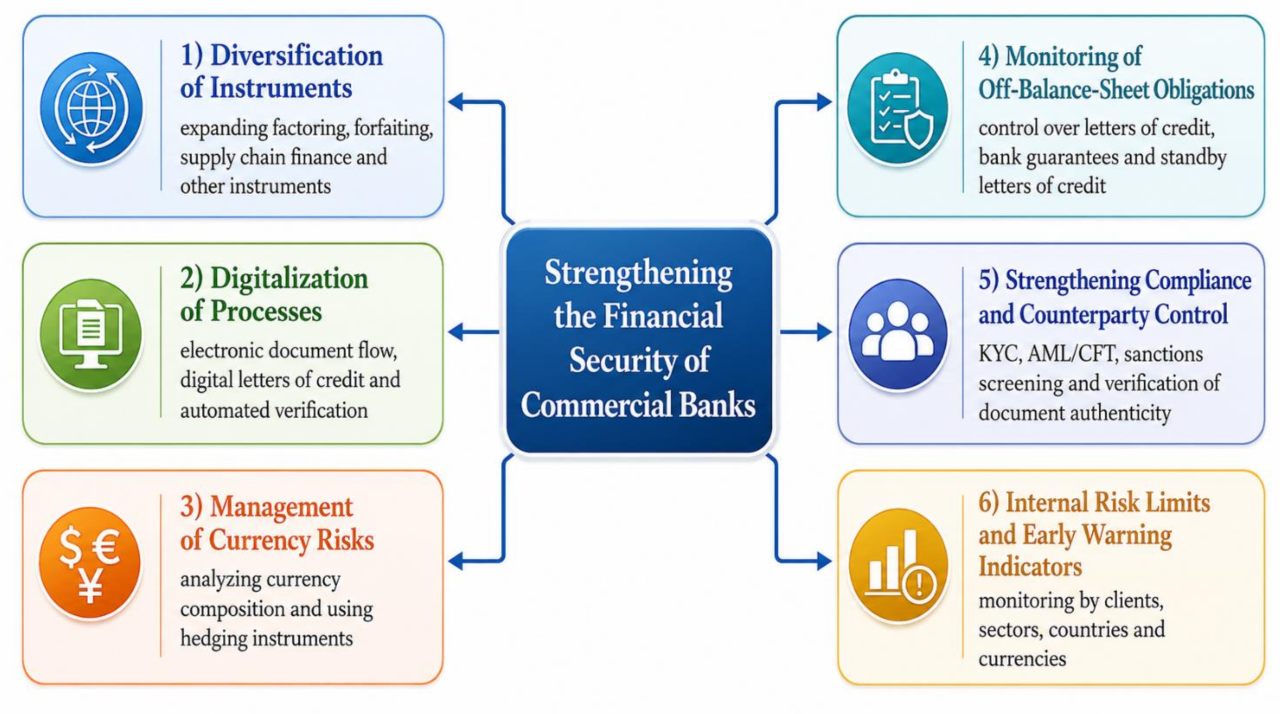

Figure 1. Priority areas for the improvement of foreign trade financing instruments

As shown in the figure, improving foreign trade financing instruments to strengthen the financial security of commercial banks should be undertaken across several interrelated areas. These areas include the diversification of instruments, digitalization of processes, currency risk management, monitoring of off-balance sheet liabilities, strengthening compliance and counterparty oversight, and introducing internal risk limits and early warning indicators.

The first area is the diversification of trade finance instruments. In practice, some banks limit their foreign trade financing primarily to export-import loans, letters of credit, and bank guarantees. However, in international practice, instruments such as factoring, forfeiting, export insurance-backed financing, supply chain finance, and other short-term trade finance tools are widely used. Utilizing these instruments enables banks to diversify their revenue streams, provide comprehensive services to clients, and distribute credit risk across various products.

The second direction is the digitalization of foreign trade financing processes. Documents for letters of credit, bank guarantees, collections, and international settlements undergo multi-stage verification. Technical errors in documents, extended deadlines, and shortcomings related to the human factor increase operational and documentary risks for the bank. Therefore, introducing electronic document circulation, digital letters of credit, automated document verification, electronic invoicing, and remote trade finance platforms for clients will increase the speed, transparency, and level of control over banking operations.

The third direction is the improvement of currency risk management mechanisms. Since most foreign trade operations are conducted in foreign currency, sharp exchange rate fluctuations affect the debt burden of importers, the revenues of exporters, and the open currency position of banks. For this reason, it is advisable for commercial banks to regularly analyze the currency structure of export-import loans and international settlements, compare clients' currency revenues and payment obligations, and expand the use of hedging instruments such as forwards and swaps.

The fourth area of focus is strengthening the monitoring of off-balance sheet liabilities. Although letters of credit, bank guarantees, and standby letters of credit are not directly reflected on a bank's balance sheet as loans, they can become real payment obligations if the client fails to fulfill their commitments. Therefore, it is necessary to establish limits for these instruments, assess concentration across beneficiaries and clients, conduct stress tests for potential payment scenarios, and monitor the guarantee portfolio in relation to capital adequacy.

The fifth area of focus is to improve the system of compliance control and in-depth counterparty due diligence. Foreign trade operations involve various countries, foreign banks, transport companies, suppliers, and buyers. This can give rise to sanction-related restrictions, illicit financial flows, forged documents, counterparty unreliability, and reputational risks. Consequently, strengthening KYC, KYB, AML/CFT practices, sanctions screening, document verification, and special monitoring of operations related to high-risk countries within commercial banks is an essential condition for ensuring a bank's financial security.

The sixth direction is to introduce internal risk limits and early warning indicators for the foreign trade financing portfolio. In this regard, banks must constantly analyze export-import loans, letters of credit, guarantees, factoring, and forfeiting operations, breaking them down by client, industry, country, currency, and term. The portfolio's over-reliance on a single client, one industry, or a specific country increases concentration risk. Therefore, it is advisable to establish internal signal indicators for the level of diversification, overdue debt, currency mismatches, documentation errors, and the volume of off-balance sheet liabilities.

When these approaches are applied in an interconnected manner, foreign trade financing instruments become not only a source of income for commercial banks but also a strategic tool for strengthening financial security. Specifically, instrument diversification balances the risk-return ratio, digitalization reduces operational errors, currency risk management protects the bank's solvency, monitoring of off-balance sheet liabilities helps predict pressure on capital, and compliance control ensures the bank's reputational and legal security.

Conclusions and Recommendations

Research findings indicate that foreign trade financing instruments hold significant strategic importance in strengthening the financial security of commercial banks. Letters of credit, bank guarantees, export-import loans, factoring, forfeiting, international settlements, and foreign exchange operations enable banks to expand their revenue base, provide comprehensive services to clients, and support the export-import activities of the real sector. However, since these instruments give rise to credit, currency, liquidity, counterparty, documentary, operational, and concentration risks, they require comprehensive management from a financial security perspective.

Improving foreign trade financing instruments in commercial banks requires, first and foremost, their diversification and differentiated management based on risk level. Alongside export-import loans, letters of credit, and bank guarantees, the broader use of financing mechanisms related to factoring, forfeiting, supply chain finance, and export insurance serves to diversify bank revenues, support client liquidity, and distribute credit risk across various instruments.

The digitalization of foreign trade financing processes is of particular importance in ensuring a bank's financial security. The introduction of electronic document exchange, digital letters of credit, automated document verification, remote trade finance platforms, and digital compliance controls reduces operational errors and documentary risks, while increasing the speed and transparency of international settlements. At the same time, digital solutions must be managed in conjunction with risks related to cybersecurity and data integrity.

To align foreign trade financing instruments with a bank's financial security, it is necessary to manage currency risks, monitor off-balance sheet liabilities, conduct thorough counterparty due diligence, and establish internal risk limits. Specifically, conducting stress tests on letters of credit and bank guarantees, analyzing the currency composition of export-import loans, assessing concentration levels by client, industry, and country, and strengthening KYC, KYB, AML/CFT, and sanctions screening practices will enhance the risk resilience of commercial banks. Overall, the diversification, digitalization, and integration of foreign trade financing instruments with the risk management system serve to strengthen the financial stability, solvency, and long-term security of banks.

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