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TOPIC :- INSTRUMENTS OF EXTERNAL PAYMENTS

External Payments employ a variety of specialised instruments. Following are the key instruments for external payments:-

(I) Foreign Bills of Exchange:- Foreign bill of exchange is customary form of making international payments. It is a written request or an order from the drawer to the drawee to pay a certain sum of money either to himself or to the payee as ordered by the drawer on demand or sometime hence. A foreign bill of exchange is generally used with the added formality of a letter of credit. Its working is very simple. The creditors of one country draws bills on their debtors in other countries and have them duly accepted by them. These bills they then sell to the debtors of their own country who desire to send money abroad. The debtors send these bills to their creditors in other countries who collect them from the debtors of their own country who had originally accepted the bills.

(II) Bank Drafts and Telegraphic Transfers:- A bank draft is an order of a bank to its branch or another bank to pay the bearer on demand a specified amount out of its deposit account. The debtor in an international transaction can get such a bank draft from his bank and send it to his creditor, who will collect the sum from the branch or bank of his own country.

On other hand, the telegraphic transfer is a telegraphic order by a bank to its correspondent bank abroad to pay a certain sum to a certain person or account out of its deposit account. It is a quicker mode of payment.

(iii) Letter of Credit :-

A letter of credit is an instrument authorising a person to draw a bill or a cheque for a specified sum on the issuing bank at a stipulated time. The letter of credit makes the exporter willing to ship the goods to the importer, for the liability for payment is assumed by the bank issuing the letter of credit.

Such letters of credit are also issued to travellers going abroad. Likewise, travellers' cheques are also issued by the bank, which can be cashed at a branch or correspondent of the bank in a foreign country.

In addition to these means, international payments may also be effected by the use of gold, home currency, personal cheques or international money orders.