

## DEVELOPING ROBUST TEST SCENARIOS FOR TRADE FINANCE APPLICATIONS: A PRACTICAL GUIDE

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### **ABSTRACT**

*Facilities that employ multi-party applications with blockchain technology provide a consistent picture of the transaction history, are decentralised and resilient to failure, and don't depend on mutual confidence between the parties. Trade finance is a financial instrument that facilitates commerce and trade internationally. Importers and exporters may do business more efficiently and easily thanks to trade financing. Banks and other financial organisations use a variety of financial products under the umbrella term "trade finance" to facilitate trade. Statistical models specific to a country and previous cross-border crisis experiences are used to develop macroeconomic stress scenarios. Indirect credit risk arises from unhedged borrowers' foreign exchange vulnerabilities. Banks and their asset classes utilise varied underwriting processes based on how aggressively they lend. Increased correlations between the likelihood of default and the loss incurred by default during stressful situations are another feature of the recommended approach. Another is that unanticipated losses are negatively impacted by lending concentration and residual loan maturity. Ultimately, the economic risk weighted capital adequacy ratio is a crucial outcome indicator that evaluates banks' resilience to credit risk materialisation. We apply the proposed methodology to many Eastern European institutions and discuss the results.*

**KEYWORDS:** *Blockchain Technology, Economic Risk, Eastern European Banks, Financial Instrument, Trade Finance, International Trade, Robust Test Scenarios*

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