



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

ई-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

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**RBI advises banks to create awareness among their
borrowers for hedging agricultural commodity price risk**

The Reserve Bank of India today [advised banks to encourage large agricultural borrowers such as agricultural commodity processors, traders, millers, aggregators, etc., to hedge their risks](#) related to agricultural commodity prices. Banks provide a number of credit facilities to customers engaged in activities related to agriculture. Volatility in agricultural commodity prices may negatively impact such borrowers and the banks. Hence, hedging of agri-commodity price risk will be beneficial to both the borrowers and the banks.

At present, a number of hedging tools, including derivatives, are available in the Indian market. However, these tools are not being used extensively due to lack of awareness of the products or due to perceived complexity of these products. The Reserve Bank has, therefore, advised banks to educate their customers about the suitability and appropriateness of using various hedging tools so that they can take an informed decision. This will also reduce the scope of mis-selling of derivatives. Banks have to keep the sophistication, understanding, scale of operation and requirements of their agri-borrowers in mind while advising them on the availability and use of these instruments.

Alpana Killawala

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Principal Chief General Manager