

RBI takes the first step towards reducing reliance on dollars for foreign trade

With emphasis on promoting exports from India and to encourage foreign trade in Indian currency, Reserve Bank of India (RBI) on Monday announced an additional arrangement for invoicing, payment, and settlement of exports / imports in INR. This came on the backdrop of depreciating INR against dollar amidst the widening of trade deficit resulting in more demand for dollar against INR.

How will the new mechanism work?

Authorised Dealer (AD) Bank would be now required to put in additional arrangements for export and import transactions in rupee. First, they would be required to have a prior approval from the Foreign Exchange Department of the RBI. For settlement of trade transactions with any country, AD bank in India may open special rupee vostro account of correspondent bank/s of the partner trading country. A Vostro account is an account a correspondent bank holds on behalf of another bank.

Indian importer operating under this mechanism would make payment in INR for their imports which would be credited into the special vostro account of the correspondent bank of the partner country against the invoices for the supply of goods or services from the overseas supplier. Indian exporters undertaking exports of goods and services through this mechanism would be paid the export proceeds in INR from the balances in the designated special vostro account of the correspondent bank of the partner country.

The exchange rate for the transaction can be market determined. According to the RBI notification the surplus in the vostro account can be used for permissible capital and current account transactions such as payments for projects and investments or can be invested in government treasury bills and securities or for Export/Import advance flow management.

Past examples

India had a similar kind of arrangement with USSR and Eastern European Socialist block under the 1953 Indo-Soviet trade agreement. All the payment transactions under this agreement was supposed to be made in the INR. As a hedge against any fluctuation of INR, INR value was fixed in terms of gold which later led to lot of complications. Very recently, India had similar bilateral Rupee-Rial arrangement with sanction-hit Iran and even as of now India is trading with sanction hit Russia based on similar Rupee-rubel arrangement.

Impact

The said announcement by RBI comes at a time when many Asian countries such as UAE, Indonesia, Myanmar are rumoured to be in talk with each other to settle trade in their domestic currencies.

This rupee trade mechanism by RBI can be viewed as a step towards the same. This should help reduce volatility in India's exchange rate against dollar as settlement in rupee would result in less demand for dollar. This also has a potential to become a platform for India to trade with sanction-hit countries such as Russia and Iran bypassing the SWIFT mechanism.

Notifications

Press Information Bureau

Paper Import Monitoring System (PIMS) to curb imports of paper under "Others" category

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1840976>

Consumer Price Index (CPI) for June 2022 at 7.01

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1840945>

Index of Industrial Production (IIP) for month of May at 137.7

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1840946>

WPI-based inflation declines marginally to 15.18% for the month of June

[https://www.pib.gov.in/PressReleasePage.aspx?PRID=1841416`](https://www.pib.gov.in/PressReleasePage.aspx?PRID=1841416)

Exports growth in 1st quarter over 25%;

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1841477>

CBIC

Tariff Notification

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2022/cs-nt2022/csnt60-2022.pdf;jsessionid=9C9CD51603FA57F79F7AA54DF08CB661>

RBI

International Trade Settlement in Indian Rupees (INR)

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12358&Mode=0>

RBI and Bank Indonesia Agree to Expand Cooperation in Payment Systems, Digital Financial Innovation, and Anti Money Laundering and Combating the Financing of Terrorism (AML-CFT)

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54043