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RBI allows global trade settlement in rupee

RBI's move, analysts say, would make rupee more tradable globally and lessen dependence on US dollar



NEW DELHI: In a very bold move to promote trade in Indian currency, the Reserve Bank of India (RBI) on Monday unveiled a rupee settlement system for international trade. The RBI's move, which analysts say would make the Indian currency more tradable globally and lessen dependence on US dollar, has been hailed as progressive.

Under the new arrangement, authorised dealer (AD) banks in India may open special rupee accounts of correspondent banks of the partner trading country, in order to allow settlement of international trade transactions through this arrangement. However, AD banks will have to take prior permission from the foreign exchange department of RBI, before putting the mechanism to use.

The export/import undertaken and settled in this manner will be subject to usual documentation and reporting requirements. "... the above instructions shall come into force with immediate effect. AD banks may bring the contents of this circular to the notice of their constituents and customers concern," an RBI notification said on Monday.

As per the notification, Indian exporters may receive advance payment against exports from overseas importers in rupee through the payment mechanism. Also, rupee surplus balance held may be used for permissible capital and current account transactions in accordance with mutual agreement, the notification stated. Abhishek Goenka, founder & CEO of IFA Global, said,

"This would make rupee more tradable globally in offshore centers.. It's a step towards making the Rupee an international 24*7 traded currency. Acceptance of the Rupee will go up. It will also undermine the use of the dollar in the longer term."

Vijay Kalantri, Chairman, MVIRDC World Trade Center, Mumbai, said, "RBI's move to promote invoicing of our foreign trade in Indian rupee is a progressive step to internationalize our local currency. This will reduce India's demand for dollars and thereby reduce depreciation pressure on our currency.

Trade Settlements In Rupee Will Strengthen India's International Presence: Experts

open special rupee Vostro accounts of correspondent bank/s of the partner trading country



The move by the Reserve Bank of India (RBI) to allow rupee transactions in International trade is going to help in subsiding price pressures and it will strengthen India's presence in the International market, experts said on Tuesday.

In order to promote the growth of global trade with emphasis on exports from India, the central bank on Monday decided to put in place an additional arrangement for invoicing, payment and settlement of exports and imports in the Indian rupee.

All exports and imports under this arrangement may be denominated and invoiced in Rupee. The exchange rate between the currencies of the two trading partner countries may be market-determined, the central bank said.

"RBI's decision to allow rupee transactions in International trade will help to subside price pressures and strengthen India's presence in the International market," said Pradeep Multani, President, PHD Chamber of Commerce and Industry.

Multani said that rupee transactions will enhance trade with better give and take with its trade partners.

"RBI's move to promote invoicing of our foreign trade in Indian rupee is a progressive step to internationalise our local currency. This will reduce India's demand for dollars and thereby reduce depreciation pressure on our currency," said Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai.

Accordingly, for settlement of trade transactions with any country, AD banks in India may open special rupee Vostro accounts of correspondent bank/s of the partner trading country.

In order to allow settlement of international trade transactions through this arrangement, Indian importers undertaking imports through this mechanism shall make payment in INR which shall 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 seller, supplier.

"India as a strong economy is an attractive destination for many economies for trade and investments," said Multani.

However, Kalantri said that the success of this strategy is dependent on the acceptability of this arrangement to our trade partners. Currently, the Indian rupee is not a globally popular international reserve currency.

Internationalisation of the rupee will explore better complementarities with countries who are willing to enhance the trade trajectory with India, said Multani.

In terms of regulation 7(1) of Foreign Exchange Management (Deposit) Regulations, 2016, AD banks in India have been permitted to open Rupee Vostro Accounts, RBI said.

Indian exporters, undertaking exports of goods and services through this mechanism, shall be paid the export proceeds in INR from the balances in the designated Special Vostro account of the correspondent bank of the partner country, RBI added.

"Also, India has a huge trade deficit with China, Switzerland, Saudi Arabia, UAE and Iraq. It remains to be seen whether this rupee invoicing mechanism will work effectively with these countries," said Kalantri.

Talking about the documentation, the central bank said that the export and imports undertaken and settled in this manner will be subject to usual documentation and reporting requirements.

At the operational level, India may promote the integration of our UPI system with the payment system in other countries so that exporters and importers can trade and settle their payments through mobile payment, added Kalantri.

The instructions shall come into force with immediate effect. AD banks may bring the contents of this circular to the notice of their constituents and customers concerned, it said

Money & Banking

Industry hopes Govt retains export sops on rupee-settled deals

Suresh P. Iyengar | Mumbai, July 12 | Updated On: Jul 12, 2022



Close up view of calculator over brand new indian 10, 50, 100, 200, 500 and 2000 rupees banknotes. Colorful money background. | Photo Credit: Denis Vostrikov

Calls to cut down huge price difference between the buy and sell quote on the rupee

The industry trade with countries facing sanctions such as Russia, Iran and Sri Lanka is expected to ease with the RBI's plan to use the Indian rupee for settlement rather than US dollar and has raised hopes of making the rupee fully convertible.

The RBI move comes on the

backdrop of few corporates sourcing raw materials from Russia and settling the trade in Chinese yuan and other currencies.

The rupee settlement will now benefit transactions with Russia, which is facing economic sanction by the US, Europe, Australia and Japan, after its war on Ukraine. Following this, Russian banks were promptly cut off from the international financial messaging system Swift.

With the RBI new initiative, Russian banks will open rupee accounts with Indian banks while Indian banks will start a rouble account in Russia. Both countries would agree to hold a sum of say \$1 billion in local currencies in their respective accounts. Typically, Russian banks will have rupees worth \$1 billion in their Indian accounts and Indian banks will have roubles worth \$1 billion in their Russian accounts.

Mutually agreed exchange rate

Based on a mutually agreed exchange rate, Indian exporters can then be paid in rupees for their Russian exports while Russians will get paid in roubles for their Indian exports.

Rajesh Masand, President, Clothing Manufacturers Association, said the system may work fine and promote ease of trading with dollar-starved countries and open up new market for Indian exporters.

India needs to cut down on the huge price difference between the buy and sell quote on Indian rupee before making it a globally acceptable trading currency as business men do not prefer too much fluctuation in currency when they are tapping the international market, he said.

Siddhartha Rajagopal, Executive Director, Cotton Textile Export Promotion Council of India, said depending on the mechanism for arriving at the exchange rate, the RBI move will enable trade with Russia and crisis-ridden Sri Lanka. The government should ensure that it retains all the incentives to tap these countries more efficiently and exports remain competitive, he added.

Vijay Kalantri, Chairman, MVIWDC World Trade Centre Mumbai, an international trade promotion organisation, said the RBI move may not cause material impact on exchange rate movement in the short run as it will take some time before the authorised banks set up rupee settlement mechanism after securing approval from the RBI.

The RBI has allowed foreign exporters to buy Indian rupee denominated bonds using their surplus export earnings which gives a sense that the RBI is trying to make rupee fully convertible on the capital account, but it does not lead to full convertibility of rupee as this is limited only to the surplus rupee earnings from exports, he added.