

# RBI opens up trade payments in rupees

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“It is a good move as far as India is concerned. Since we import more than we export, we will save foreign currency under the new arrangement. For instance, under normal circumstances, we would have had to pay Russia in dollars for oil purchases, which can now be done through the rupee-rouble route,” said Madan Sabnavis, chief economist, Bank of Baroda.

Under the mechanism, Indian importers will make payments in rupees, to be credited to the Vostro account of the correspondent bank of the partner country. Similarly, Indian exporters will be paid the export proceeds in rupees from the balances in the Vostro account of the partner country.

Industry experts said the pressure on India’s forex reserves would diminish, a collateral benefit of the move to allow trade in rupees. In addition, the opening of this trade settlement route shows Russia’s importance as India’s trading partner in the face of increasing pressure from Western countries to cut links. That said, bankers believe this route will be restricted to Rus-



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sia for the time being, and it is unlikely that other large trade partners would prefer settling transactions in rupees.

Others saw it as an extension to RBI’s announcements last week to enhance forex inflows and as a step to stabilize the rupee.

Economists at Barclays said the measures are aimed primarily at reducing the demand for foreign exchange for settlement purposes of current account-related trade flows.

“The new steps allow Indian exporters and importers to use special Vostro accounts denominated in rupees to settle

their rupee-denominated trade invoices. This step can be particularly useful for neighbouring countries, and those countries willing to use the rupee as a base currency for trade diversification in their settlement rules,” Barclays’ economists said in a note to clients on Monday.

Meanwhile, exporters are somewhat in the dark about how the policy will be implemented, including partner countries and the items that could be covered.

“Two of our biggest markets are Russia and Iran. Exports to Iran have been happening but

via other countries; so, with RBI setting up a mechanism to settle trade transactions in rupees, the tea exports will grow to both these markets, which have not been fully exploited due to payment issues in the recent years,” said Anshuman Kanoria, chairman of the Indian Tea Exporters Association.

*Mint* had earlier reported that the Vostro account set up for the purpose of trade with Iran had run dry as India was stopped from sourcing oil from Iran amid US sanctions. Exporters had said the payment problem in the Iran market restricted them from filling the space left vacant by Sri Lanka, which is in the middle of a severe financial crisis.

“With the new payment mechanism in place, India will be able to avoid sanctions placed on several countries such as Russia and Iran,” said Vijay Kalantri, chairman and president of All India Association of Industries. Kalantri added that trade between Brazil, Russia, India, China and South Africa (BRICS) and South Asian nations would grow if India had rupee-rupee transactions, a long-standing demand from the industry.