

Rupee trade: Indian banks weigh the risks of tying up with Russian lenders

Western sanctions, low economic gains cast shadow

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Indian banks are weighing the risk of opening correspondent banking relations with Russian banks, including ones that have a presence in India, such as Sberbank and VTB Bank, to carry out bilateral trade in Indian rupee. There are concerns about irking the Western nations that have imposed banking sanctions against Russia, said a person tracking the matter.

Banks in India, such as UCO bank and Canara Bank, involved in talks with Russian banks, will also need to see whether aligning with Russian banks for rupee-denominated trade would lead to economic

gains as it did while carrying out rupee-rial trade with Iran, the source added.

“In the case of Iran, UCO Bank was getting a lot of money that stayed in the account for a long time. But in case of rupee-denominated trade with Russia, the rupee balance can be used for investment in securities or infrastructure.

“So, banks are not sure whether the money will be available with them for a long time,” said the source.

These issues came up for discussion at a meeting earlier this month between the banks from both countries to discuss the details of carrying out rupee trade, which has now been permitted by the RBI.

“Initially, Indian banks were hoping to have correspondent bank relations with only those Russian banks that are not un-



der Western sanctions. But now, both Russian banks that have operations in India – VTB bank and Sberbank – are under sanctions. Moreover, there is a chance that the smaller Russian banks that are not covered under sanctions right now may also come under sanctions. Russian banks That’s a point of worry,” said the source.

Ukraine war

Following Russia’s attack on

Ukraine in February this year, Western nations, including the EU and the US, imposed sanctions against several Russian banks and banned them from using the SWIFT messaging system, which effectively stopped them from participating in international trade.

The RBI’s decision to put in place a mechanism to facilitate international trade in rupees opened the possibility of doing business with Russia in rupees and bypassing the sanctions imposed by the West.

Under the rupee trade mechanism, Russian banks could be allowed to open vostro accounts in participating Indian banks, for instance UCO, Canarabank or Bank of Maharashtra.

When India imports from Russia, rupee payments can be credited to these special vostro accounts of the Russian banks.