

Trade in rupee may boost investments in govt debt

Russian exporters may not want to hold excess rupee reserves and instead buy G-secs

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The Reserve Bank of India's (RBI) policy to allow trade settlements in rupees could lead to greater investments in government bonds and propel India's exports to sanctions-hit Russia.

Under the mechanism, Indian importers will make payments in rupees that will be credited to the vostro account of the correspondent bank of the partner country. Similarly, Indian exporters will be paid the proceeds in rupees from the balances in the vostro account. RBI has allowed the surplus rupee balance in these accounts to be used for payments for projects and investments, export, import advance flow management, and investments in government securities.

India has a trade deficit of \$6.61 billion with Russia, which means the latter would have excess rupee funds in the vostro accounts. Its trade with Russia stood at \$13.1 billion in 2021-22.

Some experts said Russia would be keen to use this route with India, given the growing importance of the nation as a trade partner in the face of western sanctions against the country. However, others believe Russian exporters might not want to hold excess rupee reserves under this policy and, therefore, would have no choice but to invest in government bonds.

"They could invest in government securities because every time there will be in surplus, they can either do that or hold reserves in rupees. But holding rupee reserves is not going to give them any return, and it comes with a risk of a 3-4% yearly depreciation," said Abhishek Goenka, founder and chief executive of forex advisory service provider IFA Global.

While Russian entities might not be too keen to invest in government securities, they have no option at the moment, Goenka said. Settlements in rupees would



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benefit India, attracting cheaper oil from Russia and inflows into the bond markets where foreign portfolio investors seem to be paring their holding.

"This would also aid the government's borrowing programme, albeit in a small way," he said.

According to Ananth Narayan, associate professor, SP Jain Institute of Management

Narayan. Meanwhile, bankers said that opening bank accounts would take some time and that they would have to seek RBI permission for each counterparty. This, they said, would only be possible for parties outside the OFAC sanctions list. Enforced by the US Office of Foreign Assets Control (OFAC), the sanctions were implemented after Russia's invasion of neighbouring

Ukraine in February. Indian banks had long hoped that the government and RBI would work out an alternative payment mechanism, as was done when Iran sanctions were imposed in 2012 and again in 2018.

"Russia may be interested in using Indian rupees because, from what I understand, they have a huge cache of the currency lying unused. The Indian government had suggested it could invest this money in capital projects in India, but I understand Russia may not be keen on doing that," said Madhu Nainan, a commentator and editor of oil and gas intelligence website Petrowatch.

FUNDS FLOW

HOLDING rupee reserves is not going to give Russia any returns, and it comes with a yearly depreciation

RUSSIAN entities may not be too keen to invest in govt securities, but they have no option right now

THE inflows would also aid the Centre's borrowing programme, albeit in a small way

and Research (SPJIMR), if the bulk of India-Russia trade comes under this rupee settlement route, the net trade will remain as rupee balances of Russian banks with India's banking system, to be invested in Indian assets such as government securities.

"This would ease India's hard currency outflow substantially, and alongside, provide welcome demand for India bonds," said