

Economic Impact of Rupee Trade Settlement vide RBI instruction on 11.07.2022:

1. The main aim of Reserve Bank of India(RBI) to allow International Trade settlement in rupees was to facilitating bilateral business relation with Russia because Russia now a wide range of western sanction and virtually mislead from standard cross-border payment platforms.
2. Through this decision, India have a positive business relation with Russia as well as helps in increasing interest of global trading in India rupees(INR).
3. It also helps in promoting the Indian exports and the growth in international trade.

The reserve Bank of India (RBI) on Monday allowed invoicing and payments for international trade in rupees, potentially facilitating greater bilateral business with Russia that is facing a wide range of Western sanction and is virtually cut off from standard cross-border payment platforms. This is aimed at promoting “the growth of global trade with emphasis on exports from India and to support the increasing interest of the global trading community in INR,” The RBI said. To be sure, India’s widening trade gap has also caused the rupee to lately slide to lifetime lows against the US dollar, exacerbating the threat of imported inflation.

India relies on overseas shipments for meeting nearly four-fifths of its annual motor-fuel demand. A greater global trade shares for the rupee its foreign exchange stockpile, dealers said. Before putting in place this mechanism, Authorized banks will require prior approval from the central bank.

Immediate Impact:

1. The international trade settlement in rupees will provide a solution to such transaction with countries like Russia that are out of the SWIFT system,” said Madan Sabnavis, chief economist, Bank of Baroda.
2. This will promote trade, especially imports for India. The critical part will, however, be the determination of the exchanges rate that will be decided by the market.”

For settlement of trade transactions with any country, banks in India may open special rupee Vostro accounts of correspondent banks of the partner trading country. ET in its edition dated June 20 first reported that the RBI would come out with an operational circular to ensure cross-border trades involving the local monetary unit. The rupee surplus balance held may be used for permissible capital and current account transactions in accordance with mutual agreement. The balance in special Vostro accounts can be used for payments for projects and investments and for export or import advance flow management. “International trade settlement in INR is it with Russia or any other country will be another frontier in our independence in foreign policy,” said Joydeep Sen, a Mumbai-based former foreign banker. “India is rightfully resisting the vested interest of the US and Europe with regard to our foreign policy and trade.”

3. Also, such trade will fall out of the ambit of forex movement and will benefit India at a time when forex reserves are under pressure.

4. The RBI move could help narrow the trade deficit as New Delhi can now increase the share of Russian oil purchase at a discounted price,” said Anindya Banerjee, currency analyst, Kotak Securities. India traders using mechanism will make payments in rupees, which will be credited or debited into the special Vostro accounts of the correspondent bank of the partner country against the invoice for the supply of goods or services.

5. The balance in the special Vostro accounts can be used for investment in T-bills and G-secs.

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