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INTERNATIONAL TRADE IN RUPEE

GS Paper 3: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

News: Meeting between The Finance Ministry and other stakeholders to discuss approaches to promote global trade in rupee rather than the US dollar.

Present Mechanism of Trade:

- Except Nepal and Bhutan exports or imports by a company are always in a foreign currency.
- Indian companies have to pay in a foreign currency, during imports and they get paid in foreign currency in case of exports.
- After that companies convert that foreign currency to rupee since it needs rupee for its requirements in most of the cases.

RBI 's notification for International Trade Settlement mechanism in INR:

- All exports and imports under this arrangement may be denominated and invoiced in rupee (INR) and the exchange rate between the currencies of the two trading partner countries may be market determined.
- Authorized Dealers (AD) banks in India had been permitted to open Rupee Vostro Accounts.
- Indian exporters may receive advance payment against exports from overseas importers in Indian rupees through the above Rupee Payment Mechanism.
- But, Before allowing any such receipt of advance payment against exports, Indian banks need to ensure that available funds in these accounts are first

used towards payment obligations arising out of already executed export orders / export payments in the pipeline.

Working Mechanism:

- Banks in India would open Vostro accounts of correspondent bank/s of the partner country to settle trade transactions with any country.
- Payment of imports by Indian importers will be done in INR into Vostro accounts. Now, these earnings from imports can then be used to pay Indian exporters in INR.
- **Meaning of Vostro account:** An account that a correspondent bank holds on behalf of another bank. **For example:** HSBC Vostro account is held by SBI in India.

Advantages due to International trade settlements in rupees:

- The **RBI circular said** that it was to “promote growth of global trade with emphasis on exports from India and to support the increasing interest of the global trading community in INR”.
- **Trouble free trading with Russia:-** Since, Russia is facing global sanctions Reserve Bank of India (RBI)’s mechanism to facilitate international trade in rupees (INR) will enhance India-Russia trade. Aim is primarily to facilitate trade with Russia but it will also help India to trade with other countries under sanction like Iran.
- It will reduce the **risk of forex fluctuation** specially looking at the Euro-Rupee parity.
- It will help check dollar outflow and enhance forex reserves as Indian companies need not to pay in foreign currency in case of export.
- To a “very limited extent” it will slow the depreciation of the rupee as Rupee has been depreciating against the dollar.
- It may pave the way towards **100% convertibility of Rupee**.
- In the long run it will enable greater use of INR in foreign trade.

Issues associated with this arrangement:

- Mechanism may not be extended to other countries as countries like Sri Lanka may need foreign currency to pay for their own imports.
- Government still to clarify on export benefits on such exports in Rupee, which is hitherto only granted for export payments received in foreign currency.