

RBI permits International Trade Settlement in Indian Rupees

Earlier, it was possible for Indian importers and exporters to agree on invoice pricing for their imports and exports in INR, but the settlement was required to be made in freely convertible currency only (mainly USD, GBP, Euro and Yen) and not in INR. The settlement of imports or exports in foreign currency adds the risk of currency rate fluctuations when invoicing is in INR and may increase the cost of settlements. This risk was exacerbated in the wake of supply chain disruptions due to Covid-19. Further, in case of existing foreign trade with Russia and Sri Lanka, the global imposition of sanctions on major Russian banks and the economic crisis in Sri Lanka created disruptions in the settlement of import / export of trades in foreign currency.

The Reserve Bank of India (“**RBI**”) has recently announced a framework on ‘International Trade Settlement in Indian Rupees’ (“**Framework**”) to enable the settlement of import and export bills of Indian traders in INR. The said arrangement will use the mechanism of INR denominated vostro accounts (“**Rupee Vostro Accounts**”) for undertaking a cross border trade settlement. The Framework has been issued in order 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.

For putting this arrangement in motion, the authorised dealer banks (“**AD Banks**”) are first required to obtain an approval from the foreign exchange department of the RBI, central office at Mumbai.

The Framework will work as under:

1. **Invoicing of Import / Export Bills**: The import / export bills issued under the Framework may be denominated in INR.
2. **Opening of special vostro accounts**: Rupee Vostro Accounts are a must for enabling the Framework. Therefore, AD Banks are required to open Rupee Vostro Accounts of the correspondent bank (i.e., a bank based in the country with whom a trade transaction is being undertaken) (“**Correspondent Bank**”) of the partner trading country (“**Host Country**”).

For opening of the Rupee Vostro Account, the Correspondent Banks must make a request to an AD Bank. Upon receipt of such request, the AD Bank will approach the RBI for seeking an approval for opening of the Rupee Vostro Account. The Correspondent Banks cannot be from a country, or a jurisdiction listed in the updated financial action task force (“**FATF**”) public statement on high risk & non co-operative jurisdictions on which FATF has called for counter measures (at present it includes North Korea and Iran).

3. **Settlement of import / export bills**: For an import bill raised by an overseas supplier (“**Overseas Seller**”) in relation to the goods sold or services rendered by it, the Indian entity buying such goods or availing such services

("Indian Buyer") are required to make payments in INR. Such payments made by the Indian Buyer in INR will be to the Rupee Vostro Account of the Correspondent Bank. The Correspondent Bank will then make payment to the Overseas Seller in the local currency of the Host Country. The currency exchange rates between INR and the local currency may be market determined.

For an export bill raised by an Indian supplier ("Indian Seller") in relation to the goods sold or services rendered by it, the overseas entity buying such goods or availing such services ("Overseas Buyer") will make payment to the Correspondent Bank in the local currency of the Host Country. Once the Correspondent Bank confirms that it has received this amount from the Overseas Buyer, the INR equivalent of such amount will be debited from its Rupee Vostro Account and credited to the account of the Indian Seller. The currency exchange rates between INR and the local currency may be market determined.

4. **Documentation:** No special documents are required to be executed for undertaking settlement under the Framework and all usual documentation and reporting requirements will be applicable.
5. **Impact on export advance / prepay transactions:** The Framework also permits an Indian Seller to receive advance amounts against export of goods and services to the Overseas Buyer. However, prior to accepting such a transaction, AD Banks are required to ensure that the Rupee Vostro Account is sufficiently funded to meet all the outstanding payment requirements.
6. **Other requirements under the Foreign Exchange Management Act, 1999:** The existing regulations pertaining to set-off of the export receivables, bank guarantees and reporting requirements will be applicable for all the transactions under the Framework.

While the current geo-political climate may have provided an impetus to the Framework, it might well be seen as a natural progression given the increasing global influence of India in international trade in the backdrop of her economic rise. In line with the stated objective of the RBI, the Framework is likely to assist in the internationalisation of the INR.

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This Prism has been prepared by:



Anish Mashruwala
Partner



Pratish Kumar
Partner



Harshit Dusad
Senior Associate



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