

A New Framework for International Trade Settlement in INR

Reserve Bank of India in its audacious and prescient decision, to strengthen the Indian rupee and palliate dependency on the US dollar, give a nod to allow international trade settlement in the Indian rupee. The new mechanism has been launched to facilitate global trade between India and other countries. Amidst the global tension and economic sanctions on countries like Russia and Iran by countries led by US and the EU, this move will ease the bilateral payment difficulties with such countries. The new mechanism will also lower the perils of forex fluctuation, especially viewing the euro rupee parity. This step could also be considered a leap toward 100 per cent convertibility of the rupee. It will also help in establishing the Rupee as an international trading currency and will also, in the long run, discourage the use of the dollar, thereby reducing depreciation pressure on Indian currency.

In the present mechanism of international trade, any exporter or importer company is carrying all the transactions in foreign currency. In the case of imports, Indian companies are making payments primarily in dollar or in a currencies like Euro, Pound, Yen etc. In the case of exports, the Indian companies get the payment in foreign currencies, mainly in dollar or Euro which ultimately have to be converted into Indian rupee to make operational payments in India. Under this new arrangement, all exports and imports payments as well as invoicing will be done in the Indian rupee and the importers and exporters will be allowed to bypass rules that halt the use of international currency such as the US dollar for trade with other countries. The currency exchange rate between the two trading partner countries will be determined by the market forces. Every Authorised Bank Dealer (AD) interested in adopting this mechanism should get prior approval from the foreign exchange department of RBI. For the settlement of trade transactions, a Special Rupee Vostro Account shall be opened by the authorised dealers bank in India of the correspondent bank of the partner trading country. Indian importers shall make payment in Indian rupee, which shall be credited to the Special Vostro Account of the corresponding bank of the partner country, in the same manner; Indian exporters shall receive the payment in Indian rupee from the Special Vostro Account of the correspondent bank of the partner country. However, under the new framework, there is no change in documentation requirements for international trade. The Uniform Customs and Practice for Documentary Credits (UCPDC) and incoterms shall be referred for letters of credit and other trade-related documents. The guidelines of the Foreign Exchange Management Act,(FEMA) 1999 shall be followed for cross-border transactions.

Although not explicitly stated, the new mechanism of payment will be used for bilateral payments with Russia. However, clarity on how Russia will make the payments for Indian imports is yet to be sought. The question like-; can the Indian payment mechanism be extended for payments to other countries is yet to be answered as other countries are dependent on foreign currency to pay for their imports. This step can be effective for such countries which are willing to have the Indian rupee as a base currency for trade diversification and the neighbouring countries. Many countries across South America and Africa are witnessing massive foreign exchange shortage and are making payments through letters of credit only. Also, clarification from the government will be required on export benefits available to the exporters who shall be using the new Rupee payment mechanism as such benefits are currently given only for export payments received in foreign currency.



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