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Analysing developments impacting business

RBI TRADE NOTIFICATIONS | INTERNATIONAL TRADE SETTLEMENT IN INDIAN RUPEE (INR)

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Amidst the current geo-political and economic situation prevalent across the globe, and considering the continuous weakening of the Indian Rupee (INR), the Reserve Bank of India (**RBI**) vide Circular dated 11 July 2022 has allowed international settlement of trade in INR for export and/or import of goods and services.

This step aims to promote growth of global trade with emphasis on exports from India and to support the increasing interest of global trading community in INR. This is an additional arrangement for invoicing payment, and settlement of exports / imports and would co-exist with the current practice of trade settlement in freely convertible foreign exchange (**FOREX**). An authorized bank would require an approval from the RBI to implement this arrangement. Extant Master Direction on Export of Goods and Services and Master Direction on Import of Goods and Services would be applicable to INR settlement subject to this Circular.

Some of the salient features of the said Circular include:

- All exports and imports under this arrangement may be denominated and invoiced in INR
- Exchange rates would be market determined
- Settlement of trade transaction can take place in INR
- Indian banks will be permitted to open a Special Vostro Account (**SV Account**) of the correspondent bank of the trading country
- In case of imports, payments in INR can be credited into the SV Account of the correspondent bank, against the invoices for the supply of goods or services
- In case of exports, Indian exporter is paid from the balance available in the SV account of the correspondent bank of the partner country. Payment towards advance for exports from SV Account is, however, subject to the availability of funds, executed export orders / export payments in the pipeline
- Advance against export may also be received in INR

- Set-off of export receivables shall also be permitted subject to existing RBI master directions

Comments:

Trade settlement through INR denominated SV Account is a welcome move by RBI as the same would facilitate trade with sanctioned countries like Iran and Russia wherein it has increasingly become difficult to use United States Dollar (US\$) or Euro (*) denominated correspondence account for trade settlement. It is expected that trade settlement in INR with countries where India has trade surplus will be successful, but settlement with trade deficit countries would be difficult unless a strong line of credit mechanism is also put in place. RBI also needs to permit seamless setoff of trade payables against service receivables and vice versa to make this arrangement successful.

Further, under this arrangement, exchange rates would be market driven whereas for customs transaction of import and export, exchange rates are notified from time to time by the Central Board of Indirect Taxes and Customs (**CBIC**) and therefore, same is required to be aligned with this arrangement. Furthermore, most of the export incentives under the Special Economic Zone (**SEZ**), Foreign Trade Policy and duty drawback are FOREX linked such as positive net foreign exchange (**NFE**) under Export Oriented Units / Software Technology Parks of India or SEZ computed on the basis of FOREX realized. A clarification is required from the authorities that payment received in INR under this arrangement would be deemed as a receipt of FOREX.

We welcome this step as the first bold step to make INR a global currency and with passage of time, even capital accounts transaction may be permitted to make INR truly convertible. This step will also help in reducing transaction cost as business will save commission paid to overseas correspondence banks.

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