

# Govt's push for international trade in rupee: why and how

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By: **Explained Desk**  
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Currently, exports or imports by a company are always in a foreign currency, with exceptions such as Nepal and Bhutan. (File)

The Finance Ministry was scheduled to meet with stakeholders including banks and the Ministries of External Affairs and Commerce to discuss ways to promote **international trade in rupee** instead of the United States dollar.

The meeting will be attended by representatives of Reserve Bank of India, Indian Banks Association, the representative body of banks, and industry bodies, PTI reported on Tuesday (September 6). Banks would be told to ask exporters to negotiate on rupee trade, the report said, quoting sources.

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## The background

On July 11 this year, the RBI issued a circular saying it had decided “to put in place an additional arrangement for invoicing, payment, and settlement of exports/ imports in INR”. The idea, the RBI said, was to “promote growth of global trade with emphasis on exports from India and to support the increasing interest of global trading community in INR”.

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## Way it would work

To settle trade transactions with any country, banks in India would open Vostro accounts of correspondent bank/s of the partner country for trading. Indian importers can pay for their imports in INR into these accounts. These earnings from imports can then be used to pay Indian exporters in INR.

A Vostro account is an account that a correspondent bank holds on behalf of another bank — for example, HSBC Vostro account is held by SBI in India.

## System currently

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Currently, exports or imports by a company are always in a foreign currency, with exceptions such as Nepal and Bhutan. So, in case of imports, the Indian company has to pay in a foreign currency, which is mainly dollars, but could also be pounds, euros, or yen, etc.

The Indian company gets paid in foreign currency in case of exports and the company converts that foreign currency to rupee since it needs rupee for its requirements in most of the cases.

## Expected use

While the RBI order did not say so, the arrangement was expected to be used primarily for Russia. “There are sanctions on Russia post the **Ukraine** war and the country is off the SWIFT system (system used by banks for payments in foreign currency). This means payments do not have to be made in foreign currency and this arrangement would help both Russia and India,” Madan Sabnavis, chief economist at the Bank of Baroda, had told **The Indian Express** at the time.

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Sabnavis said it was not likely that the arrangement would be extended to other countries. “We may want to, but others may not accept it as they may need foreign currency to pay for their own imports,” he said, adding that Sri Lanka may also want us to pay in dollars or any other foreign currency.

## Fall of rupee

The arrangement was not expected to help arrest the fall of the rupee to any significant extent. The rupee, like all global currencies, has been depreciating against the dollar, and the general trend has been towards a steady weakening for several months now.