

War no bar: India clears global pariah Russia's move to invest in Indian corporate debt

Russian entities will pay for these investments through an RBI account that has accumulated pending payments for defence purchases made from Moscow.

SHUBHAM BATRA 24 March, 2022 08:00 am IST



File photo of Prime Minister Narendra Modi with Russian President Vladimir Putin in New Delhi in December 2021 | ANI

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New Delhi: Even as much of the world is distancing itself from Russia for invading Ukraine, particularly in the financial sector, the Narendra Modi government has approved a proposal from Moscow that will allow it to invest in debt securities of Indian companies, ThePrint has learnt.

Senior officials in the government told ThePrint that the proposal was made and approved amid the global turmoil created by the war. One of the officials refused to elaborate when asked about the timing of the government's decision.

According to the proposal, Russian government officials asked their Indian counterparts to relax India's External Commercial Borrowing (ECB) framework, which will allow Russian entities to invest in bonds of Indian companies, and pay for these investments through an account with the Reserve Bank of India (RBI) that has existed since before the collapse of the Soviet Union three decades ago.

The RBI account, according to an official who did not wish to be named, has an accumulated balance of Rs 2,000 crore from pending payments for defence purchases made from Russia. "The money has accumulated over a period of time," the official said.

Explaining the mechanism, another official — who also spoke on condition of anonymity — said if an Indian entity raises money by issuing masala bonds, a Russian entity can invest in these bonds, and the payment for these investments can be set off against the money lying with the RBI.

Masala bonds are rupee-denominated bonds issued overseas by Indian companies. They are debt instruments that help companies raise money in India's currency from foreign investors. Both government and private entities can issue these bonds.

Since the collapse of the Soviet Union, the Indian and Russian governments have used this payment mechanism by activating the RBI account only twice before — once in 1993, then in 2003. "This is also some sort of rupee-rouble arrangement that exists between the governments from before," the second official said.

The official said these investments will be subject to sectoral limits that are defined in the ECB policy, which allows Indian companies to raise money overseas.

"This is not just about one proposal, you have to see it in the overall scheme of things," a third official source privy to the development told ThePrint.

"India here is purely acting in what is in its interest. There is a rupee-rouble mechanism that has existed from the Soviet era, this proposal is merely reactivating that mechanism," the source said.

"How it worked was India held some rupees owed to Russia and Russia would hold on to some roubles owed to India. Both countries would deposit this money in their local banks, for example, the State Bank of India here. And then conversion would happen in a neutral account," the source added.

India has abstained from United Nations votes on the Russia-Ukraine crisis, calling instead for an "immediate cessation of violence", and emphasising dialogue as the way out of the dispute.

On Monday, US President Joe Biden said that India — an "exception" among major US allies — "has been somewhat shaky" on Western sanctions punishing Russia's war on Ukraine.

ThePrint sought comments on the issue from the Ministry of Finance and Reserve Bank of India but there was no response from either until the time of publishing this report. The report will be updated if they respond.

Also Read: *Rupee-rouble romance was for Soviet era. Not trade option now for India-Russia*

No fresh proposal on rupee-rouble payments yet

The second government official said that while there have been discussions within the government regarding a fresh rupee-rouble mechanism for payments between India and Russia, no proposal about the same has been received yet by the finance ministry.

"These discussions are still going on, but no formal proposal has been made yet," the government official added.

The government, the official said, will be using the old rupee-rouble mechanism for government-to-government transactions. Under this system, India paid in rupees for the items it purchased from Russia, equivalent to the value of the product in roubles.

The rupee-rouble mechanism also worked in the form of a traditional barter system, under which Russia could import items from India worth the same value that New Delhi would procure from Moscow.

India buying discounted oil from Russia

The Indian government has also been exploring alternative sources of energy as crude prices have skyrocketed amid Russia's invasion of Ukraine and the subsequent economic sanctions imposed on Moscow by several Western nations.

The price of India's crude oil basket rose to \$108.25 per barrel Friday, according to data from the Petroleum Planning and Analysis Cell.

While India imports most of its oil requirements from Saudi Arabia, and only 2-3 per cent from Russia, Indian Oil Corporation, the biggest state-owned fuel retailer, has reportedly bought around 3 million barrels of oil from Russia at a discounted price in the aftermath of the Russian offensive in Ukraine.

According to commodities data and analytics firm Kpler, India's import of crude oil from Russia in March so far is nearly four times higher compared to the same period last year.

"Already committed oil cargoes from Russia that can't find buyers in Europe are being bought by India," the *Financial Times* quoted Alex Booth, head of research at Kpler, as saying.

The third source quoted earlier said India lost some of its "strategic oil reserves" during the pandemic, which had to be used in the absence of oil not coming from its usual sources.

"So now the sense is that India will use Russian oil to replenish its strategic reserves. Indian Oil Corporation has the capacity to refine Russian oil. Not just this, the Indian government would also like to send the Russian oil for refining to countries which have the capacity to refine it," he added.

Last week, Ministry of External Affairs spokesperson Arindam Bagchi told the media: "India does import most of its oil requirements. So, we are always exploring all possibilities in the global energy market because of this situation that we face importing our oil requirements. I don't think Russia has been a major supplier."

"Let me just highlight that there are a number of countries that are doing so (importing oil and gas from Russia), especially in Europe... We need the energy," he had said.