

# Top PSBs may soon end wait on trade settlement in rupee

Finance ministry to meet stakeholders today

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New Delhi, 6 September

Top public sector banks — such as State Bank of India (SBI) and Bank of Baroda (BoB) — are working to make operational the Reserve Bank of India's (RBI) latest mechanism for settling international payments in rupee, according to people aware of the development. The move is aimed at boosting trade with sanctions-hit Russia.

The wheels started spinning after the government allayed banks' concerns about sanctions by Western nations, saying if they steer clear of sanctioned items, entities, and banks, they won't be affected, the sources said.

"Banks are in the process of opening accounts with non-sanctioned entities. Leading banks, such as SBI and Bank of Baroda, are some of the leading banks to go ahead with the rupee trade mechanism," said one of the persons cited above.

"Earlier the (government's) demand was that the Indian banks carry out rupee trade with all banks, including sanctioned banks. But banks in India expressed their concerns that they have challenges at the international level. The government understood their concerns. Now settling international payments in rupee will be done purely with non-sanctioned entities," the official said. SBI and BoB did not respond to e-mails seeking comments.

In July, the RBI unveiled a mechanism to settle international trade transactions in rupee to promote international trade, with emphasis on exports from India.

Banks have to take approval on doing such transactions; the exchange rate between the currencies of two trading partner countries will be market-determined.

The rupee trade mechanism, however, is yet to be implemented on the ground by the banks. Commerce Secretary B V R Subrahmanyam on Saturday said the



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► **SBI, BoB in the process of making the rupee trade settlement operational**

► **Commerce Secretary B V R Subrahmanyam said Department of Financial Services is working to make the framework operational**

► **The new mechanism set to help trade with countries, such as Russia, Iran, and Sri Lanka**

► **Trade deficit with Russia widened to \$4.13 billion in June, against \$2.55 billion in May**

RBI's new mechanism would not just help rupee-denominated trade with Russia, but also with countries, such as Sri Lanka and Iran. The Department of Financial Services is working to make the framework operational, he said.

*Business Standard* last month reported that the Centre had told banks to exercise their commercial discretion and not deal with sanctioned entities, particularly in the case of Russia, while settling international trade in rupees. They were assured that there won't be any issue in transacting with non-sanctioned banks.

Banks had reached out to officials in the finance ministry, external affairs ministry, department of commerce, and central bank, expressing concerns that the rupee trade mechanism may result in economic sanctions on them by the West. "The government now wants the RBI's backing, in terms of moral support," said one of the persons cited above.

Meanwhile, the finance ministry will on Wednesday hold a meeting with all stakeholders, including banks and officials of external affairs and commerce ministries, to discuss ways to promote cross-border trade in rupee instead of US dollar.

The meeting, to be chaired by financial services secretary Sanjay Malhotra, is expected to see attendance from representatives of the Reserve Bank of India, IBA, and industry bodies. Banks would be asked to promote this by asking exporters to negotiate on rupee trade, sources said.

India's trade deficit with Russia is widening, as exports fell sharply because of disruptions in trade triggered by Russia's invasion of Ukraine.

On the other hand, imports continued to rise on the back of higher inbound shipments of cheap Russian crude oil hitting Indian shores.