

Rupee-rouble trade with Russia may take time to stabilise

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While Indian banks are opening special vostro account with their Russian counterparts for settlement of trade in rupee, efforts are on to augment rupee balance in the existing account facilitated by UCO Bank for trade with Iran.

Looking at alternatives to ensure smooth payment mechanism for trade to circumvent the impact of western and American sanctions on Russia, the Indian government has allowed UCO Bank to open a rupee account with Russia's

Gazprombank. But the Indian industry fears that it may follow what happened in case of Iran where rupee-rial trade was initiated.

The steep decline in balance in the payment account with Iran has left the industry worried as they feel there is still lack of "clarity and direction" on how the system would work out. According to at least two people familiar with the development, various ways of augmenting the rupee balance in the rupee-rial account is being looked at between the two governments including the possibility of a rupee loan from government-to-government to facilitate trade.

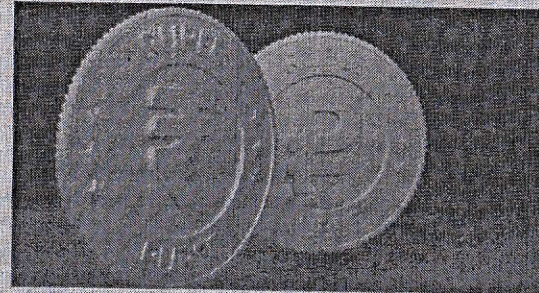
A vostro account is an ac-

count a foreign bank opens with an Indian bank in rupee.

VOSTRO ACCOUNT

Ever since the US imposed sanctions on Iran, India could not engage in dollar-denominated trade with the country. Hence, a rupee-rial trade mechanism was put in place in 2018.

Oil refineries from India would deposit rupees in the two designated banks - UCO Bank and IDBI Bank - for import of crude oil from Iran. Since there have been no oil imports by India since May 2019 due to Western sanctions, the accumulations in the rupee-rial accounts have been depleting drastically.



FINDING A WAY OUT. The Indian government has allowed UCO Bank to open a rupee account with Russia's Gazprombank

"The rupee balance in the account has come down drastically ever since we stopped purchasing oil from Iran. Augmenting rupee bal-

ance in the account is being looked at," Soma Shankara Prasad, MD & CEO, UCO Bank told *businessline*.

In order to promote ex-

ports, the Reserve Bank of India issued a circular on July 11, allowing trade settlements between India and other countries in rupee with immediate effect. Indian importers undertaking business through this mechanism will have to make payments in rupee, which would be credited into the special vostro account of the correspondent bank of the partner country, against the invoices for trade.

According to a trade analyst, dollar is the dominant currency in which most trade happens, and for any other currency mechanism to stabilise, it takes years. In the case of Iran, rice, tea, fertilisers and agro chemicals are some of the

key items for export from India, while pharmaceuticals, machinery, coffee and tea are some of the main items exported to Russia from the country. India now imports higher volume of crude oil from Russia than it did in previous years.

PAYMENT MECHANISM

According to Vinod Kaul, Executive Director of All India Rice Exporters Association, the vostro account with Iran was working well till recently when the balance in the account came down as India stopped purchasing oil. Kaul is hopeful that the trade settlement mechanism in rupee being put in place would work out well when fully implemented.