

RBI seeks nod for overseas rupee lending by domestic banks to neighbours

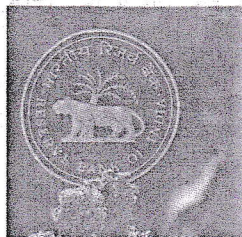
Reuters
New Delhi

In a move to internationalise the rupee, the Reserve Bank of India is seeking approval from the Centre to allow domestic banks and their foreign branches to lend the currency to overseas borrowers for the first time, two sources said. The move aims to enhance the use and acceptability of the local currency in trade.

The proposal, which was sent to the Finance Ministry last month, suggests lending in rupees to non-residents can begin in neighbouring countries such as Bangladesh, Bhutan, Nepal and Sri Lanka, the sources said. If successful, such rupee-denominated lending could be extended to cross-border transactions globally, one of the sources said.

According to Ministry of Commerce data, 90 per cent of India's exports to South Asia were to these four nations in 2024/25 (nearly \$25 billion). Currently, foreign branches of Indian banks are restricted to providing loans in foreign currencies and such loans are extended mainly to Indian firms.

The sources declined to be identified as the discussions



are confidential. Emails sent to the Finance Ministry and the RBI requesting comment did not receive a response. The RBI has been taking steps to increase the use of the local currency in global trade and investment. As part of the strategy, RBI recently permitted the opening of rupee accounts for non-residents outside India.

Earlier this month, *Reuters* reported the RBI has sought government's approval to remove the cap on foreign banks with so-called vostro accounts buying short-term sovereign debt, to boost rupee-denominated investment and trade. The RBI will open the foreign loans in rupees only for the purpose of trade, the sources said.

RUPEE LIQUIDITY

Currently, rupee liquidity is provided in other countries only through a limited num-

ber of government-backed credit lines or bilateral currency swap arrangements. "The objective is to reduce dependence on such arrangements and instead allow commercial banks to provide rupee liquidity on market terms," the first source said, citing a communication from RBI in April.

The second source said enabling easier access to rupee-denominated loans will help facilitate trade settlements in rupees and reduce exposure to foreign exchange volatility. The Centre has received several requests from financial institutions to support strategic projects through rupee-denominated financing, the second source said.

India's experience with local currency pacts with the UAE, Indonesia, and the Maldives, as well as Special Rupee Vostro Accounts used for trade with Sri Lanka and Bangladesh, has underscored the need to deepen the availability of rupee liquidity, the source said. If implemented, the policy would mark a major step toward integrating the rupee into the global financial system, positioning it as a more widely accepted currency for international trade and investment, the second source added.