

Trade settlement in ₹: Banks seek clarity on fund repatriation

BHASKAR DUTTA & MANOJIT SAHA
Mumbai, 27 July

Banks have sought clarity from the Reserve Bank of India (RBI) on whether surplus funds accumulated through international trade settlements in rupees can be repatriated to the host countries of entities involved in such transactions, central bank sources told *Business Standard*.

The RBI, on July 11, announced additional arrangements for invoicing, payment, and settlement of exports and imports in rupees. The exchange rate for such transactions may be market-determined, the central bank said.

According to the RBI's notification, surplus balances in Vostro accounts emanating from such trades may be used for three purposes. These are

payments for projects and investments, management of export and import flows and investment in Indian government securities. The central bank's notification has no mention of repatriation of funds.

"To the best of my understanding, there is no question of repatriating the funds in the Vostro account. The funds can only be used either to purchase stuff from India or to invest in projects in India," Ananth Narayan, associate professor at S P Jain Institute of Management and Research told *Business Standard*.

"You can pay for exports from India, or as advances for exports in India and it can be used for government securities. There's no mention of any repatriation," he added.

A Vostro account refers to an account that a bank uses to

park money with another bank. The term Vostro — meaning yours — implies that the funds parked belong to the foreign counterpart. In the Indian context, a Vostro account would refer to funds parked in rupees that belong to another bank.

"The issue of repatriating these funds is not very clear. A counterparty in a rupee trade can of course wish to structure an arrangement in a way that ensures that the net surplus returns to the host country," said a treasury executive from a large private bank.

"According to the RBI's current notification, surpluses can be used to manage exports and imports. For instance, if we are importing more than the host country, then the extra rupee with the host can be used for their existing



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imports from India," the official said.

Banks also raised the question to the RBI as to why the surplus balances in Vostro accounts could only be

invested in government securities and not corporate debt.

The RBI has over the years adopted a gradual approach to opening up overseas investment in corporate bonds. The

current limit for foreign portfolio investors (FPIs) here is 15 per cent of the outstanding stock of bonds.

"After all, FPIs are allowed to invest in corporate bonds in India. In fact, they've also announced project investments. Of course, they haven't specified what they mean by project investments," Narayan said.

"While it doesn't talk about corporate bonds, I think they would allow it," he said.

The RBI's fresh step on international settlement in rupees has been widely interpreted as one that could facilitate increased trade with countries such as Russia. This comes at a time when elevated prices of dollar-denominated commodities like crude oil have exerted upward pressure on India's import bill.

Significant global strength-

ening of the dollar over the last couple of months has added to the strain on India's current account deficit. The US dollar index has gained 9 per cent since April, climbing to a 20-year high earlier this month.

India, which imports more than 80 per cent of oil needs, has increased its purchases of Russian crude by more than 50 times since April.

Five days prior to the notification on trade settlement in rupees, the RBI had also announced measures aimed at attracting overseas funds. These include relaxations on foreign currency deposits offered by banks, external commercial borrowings by companies and foreign investment in debt.

The measures all came at a time when the rupee was at new lows versus the dollar.

So far in July, the rupee has

weakened as much as 1.3 per cent versus the dollar, with the domestic currency breaching the 80 mark for the first time ever on July 19.

Sources told *Business Standard* that while the rupee's recent volatility was a concern for the Centre, the government was not overly eager with the large number of steps announced in quick succession by the RBI to stabilise the currency.

The Centre was of the view that the pace at which the central bank acted may have displayed a sense of too much urgency to stem the slide of the rupee, sources said.

In response to a query on the degree of inflows that the RBI's recent moves may attract, Governor Shaktikanta Das said on July 22 that it was too early to ascertain the impact of the measures.