

In a bid to reduce the drawing down of precious forex reserves and to make use of geopolitical developments in favour of India, the RBI has recently come up with the decision to make the international trade payment settlements in rupee.

The decision has been made on the backdrop of Russia-Ukraine conflict and subsequent sanctions on Russia by the West. Further, Russia's removal from SWIFT network has created a conducive environment for India to enter into a rupee denominated settlement framework.

### Modus operandi of this new settlement framework

The bank of the partner country will ask the AD Bank to open special rupee vostro account. The AD bank in turn will seek approval from RBI. The imports involving in imports will credit the vostro account of bank of the partner country against the invoices of the goods and services imported. In the case of exporters, the invoices of the goods and services will be paid from the special rupee vostro account of the <sup>bank of</sup> partner country.

### Positive impacts of the move:

This move by RBI will help reduce India's dependency on US dollars. Moreover, India is facing a trade deficit as its imports are greater than exports. So, settling of payments in INR will save the forex (dollar) outflows. Since the crude oil prices are hovering above \$110 per barrel, India can buy cheap oil from Russia which leads to a win-win situation for both the countries. Also, Russia is the largest arms exporter for India. So, the future and current <sup>arms</sup> trade-deals can be carried out under the new framework.

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