

**Agpaytech's Research**  
**24th April, 2023**

# **The Rise of the Indian Rupee in International Trade**





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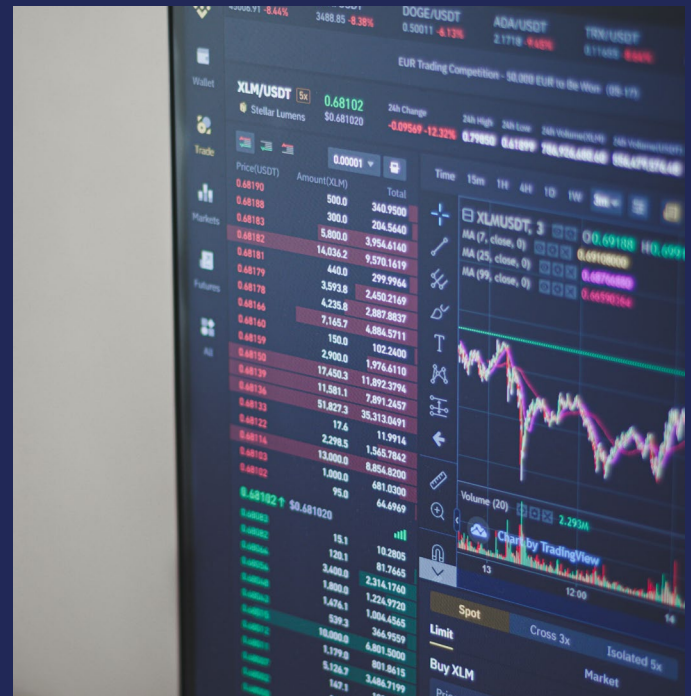
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# Introduction

India has a long and illustrious history of trading with the world. Trade settlements have been an integral part of the Indian economy since ancient times, with merchants from India trading with countries worldwide. This trade has helped India to grow and expand its economy, as well as its culture and influence. Today, India is one of the world's largest trading nations and has strong relationships with many countries. The Indian government has ensured that the country's trade settlements remain fair and transparent and promote a healthy trading environment. It has included initiatives such as simplifying customs procedures, establishing a unified customs code, and implementing a single window system for trade settlements. The Indian Rupee is a virtual currency in international trade. It is the official currency of India and is used in many countries worldwide. As India's economy has grown, the rupee has become more widely accepted as a form of payment in international trade. Many countries, including

China and the United Arab Emirates, have used the rupee as a form of payment for their exports to India.

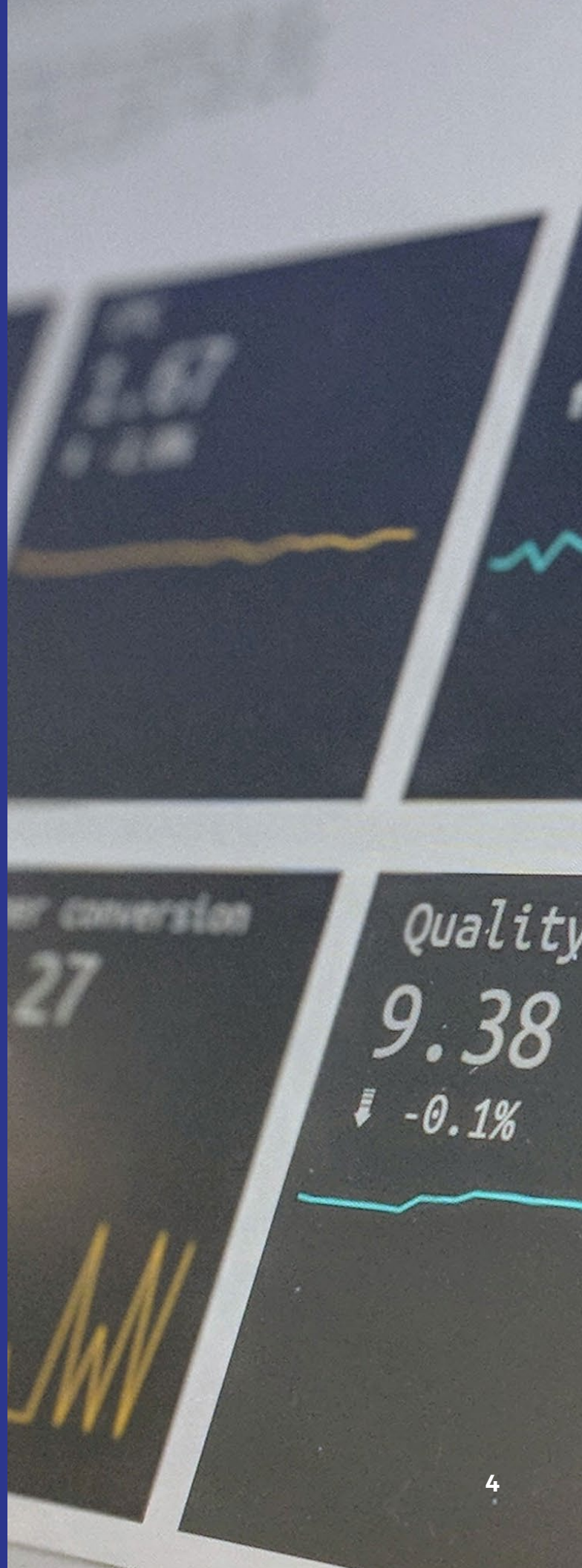


It has made it easier for Indian businesses to buy goods and services from abroad, helping to boost India's economic growth. In addition to its use as a form of payment, the rupee is also used in financial transactions. The rupee is widely accepted in many foreign exchange markets and some offshore financial centres. It makes it easier for investors in India to access international financial markets.

# Trade settlement in Indian rupees

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India's Rupee Trade Settlement Mechanism (RTSM) is a revolutionary system that facilitates global trade by allowing countries to settle international transactions in Indian rupees (INR) rather than in U.S. dollars and other major currencies. This system simplifies the entire foreign exchange process and helps to reduce the costs and risks associated with currency conversion. It enables buyers and sellers to open a particular Rupee Vostro account in an authorized dealer (A.D.) bank in India, which allows them to pay for goods and services and receive payments in their local currency. The RTSM also provides Indian exporters an alternative to receiving payments in U.S. dollars. When the exporter needs to be paid, the Rupee Vostro account of the foreign buyer is debited, and the amount is credited to the exporter's account. This mechanism is expected to positively impact international trade and investment by providing an alternative to the U.S. dollar and providing countries that are short of dollars with an alternative way to settle international transactions.



# The Rupee Switch

The new measure will promote trade growth, with an emphasis on exports from India, and support the interest of the trading community in rupee, RBI said.

Figure 1: India's top trading partners



## Collateral Gain

The Pressure on India's forex reserve is likely to diminish

RBI's measure shows Russia's significance as India's trading partner

Some analysts see RBI'S moves as a step to stabilize the rupee.

Source: [www.Drishtias.com](http://www.Drishtias.com)

# Significance of Vostro account

Recently, the Indian government announced the launch of the Special Vostro Account Scheme (SVRA) to simplify cross-border transactions and encourage foreign direct investments into the country. The scheme will allow foreign companies to open rupee-denominated accounts with Indian banks and facilitate quick and efficient funds transfers. It will be beneficial for both Indian and foreign investors. It will help streamline the flow of goods and services between India and 18 countries, such as Fiji, Guyana, Israel, Kenya, New Zealand, Malaysia, Mauritius, Oman, Russia, Seychelles, Botswana, Singapore, Sri Lanka, Tanzania, Germany, Uganda, Myanmar, , and the United Kingdom. The Reserve Bank of India (RBI) has authorized domestic and foreign authorized dealer (AD) banks to open 60 Special Vostro Rupee Accounts (SVRAs) for banks from these countries. Vostro accounts will enable Indian importers to pay their overseas suppliers more quickly and easily. Additionally, this scheme is expected to significantly boost India's exports and provide a safe alternative to paying Indian rupees, thus mitigating the risk of international sanctions during the war. The decision to open SVRAs will strengthen India's foreign trade and benefit the Indian economy.

Figure 2: Meaning of the Vostro account



Source: [moneycontrol.com](http://moneycontrol.com)

# Vostro accounts

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Trading in India offers lucrative opportunities for investors to capitalize on the booming Indian economy. With the proper knowledge and strategy, traders can make substantial profits. To maximize their gains, traders can set up Vostro accounts between two Indian banks, which allows them to access a wide range of investments, such as stocks, commodities, and forex. Using two separate Vostro accounts also ensures traders can make the most profitable investments. However, traders should also consider the associated fees of maintaining two accounts. Although the fees are usually minimal, they can accumulate quickly if a trader makes frequent transfers between the two accounts. All in all, two Vostro accounts give Indian traders access to various investment opportunities while also ensuring their funds are transferred securely. It is essential to consider all the costs involved before deciding if this is the right option for them. The advantages of Trade Vostro Accounts for Indian traders are numerous.

- ▶ Indian traders use trade Vostro Accounts to trade in overseas markets.
- ▶ These accounts allow Indian traders to access global exchanges and markets where they cannot directly trade.
- ▶ They offer efficient and cost-effective ways to transact in international markets.
- ▶ They can be used for trading in equities, commodities, derivatives, and currencies.
- ▶ Trade Vostro Accounts are beneficial for Indian traders as they can avail of the benefits of global markets and exchanges without the need for a local presence.

- ▶ These accounts are also helpful for hedging against currency fluctuations and for hedging against global market volatility.
- ▶ Trade Vostro Accounts offer a secure and convenient way for Indian traders to trade in international markets.
- ▶ Indian traders can take advantage of the low transaction costs associated with these accounts.
- ▶ They also provide a secure storage platform for Indian traders' funds.
- ▶ Trade Vostro Accounts provide Indian traders with access to the best global markets and exchanges.

## Integration of UPI and PayNow

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Today, India's Prime Minister launched a landmark partnership between India and Singapore in Fintech. Through the Unified Payments Interface (UPI) and PayNow linkage, people living in India can now send and receive money quickly to people living in Singapore. This connection is enabled through participating banks and Non-Bank Financial Institutions (NFI) in Singapore. This linkage is expected to bring greater convenience and speed to those sending money between India and Singapore and reduce the cost of remittances. It will also help the Indian diaspora in Singapore, especially migrant workers, and students, through instantaneous and low-cost money transfers. Furthermore, it will create a favourable environment for digital payments beyond borders, including with ASEAN countries, helping to drive financial inclusion. In March 2023 India chaired the G20 to leverage this drive global dialogue and solutions in the Fintech space. PayNow is a fast payment system in Singapore.



It enables peer-to-peer funds transfer service, available to retail customers through participating banks and Non-Bank Financial Institutions (NFIs) in Singapore. It allows users to send and receive instant funds from one bank or e-wallet account to another in Singapore using their mobile number, Singapore National Registration Identity Card (NRIC)/ Foreign Identification Number (FIN), or VPA.



Figure 3: Integration of UPI and Pay Now



Source: clicbrics.com

# India's new foreign trade policy

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The policy also includes initiatives to increase the share of India's exports in global exports. As a result, the government has set a target to double India's exports to \$2 trillion by 2030. It will be achieved by introducing various incentives and support schemes for exporters and importers. The government has also introduced measures to facilitate trade obligations, such as the opening of the Export-Import Bank of India for providing long-term loans to Indian exporters and allowing for the grant of export benefits and fulfilment of export obligations for export realizations in Indian currency. The government has also taken steps to reduce the cost of doing business for exporters and to promote innovation and digitalization in the sector. With the introduction of the new foreign trade policy, India is expected to become a significant player in global trade. However, India's new foreign policy has a few key points.

The Foreign Trade Strategy 2023-28 will boost e-commerce export growth and is estimated to reach USD 200-300 billion by 2023. It includes an amnesty system for one-time settlement of export requirement defaults, and the Ministry has assured that this policy will not expire and will be revised regularly. The FTP (Foreign trade policy) 2023 is highly dynamic and adaptable to the changing trade environment. Total exports for the financial year 2023 are estimated to cross USD 760 billion, against USD 676 billion in 2021-2022.

- ▶ The policy is designed to resolve issues and transform India's foreign trade while shifting from incentives to remission.
- ▶ It also emphasizes export promotion through partnerships with exporters, states, districts, and Indian Missions.
- ▶ Furthermore, it will stimulate ease of business, focus on developing areas such as e-commerce and export hubs, and ensure that India's economic growth is not affected by the continuing Russia-Ukraine conflict.

In a presentation at the occasion, the Ministry of Commerce and Industry stated that the World Trade Organization's global trade projection expects a 1% slowdown in world commerce in 2023. And India's nominal GDP will be approximately USD 3.5 trillion by March 2023.

## Conclusion

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The rise of the Indian Rupee in international trade has been a long time coming. Despite some short-term fluctuations, the long-term trend has been one of appreciation. This appreciation has been driven by India's strong economic fundamentals, its improved trade balance, and its growing presence as a global economic power. The future of the Indian Rupee looks bright, and it is likely to remain an important currency in international trade for years to come. The rise of international trade has been incredibly beneficial for India's economy. It has opened a huge number of new opportunities for Indian businesses to expand and grow. Furthermore, it has allowed Indian firms to access resources and products from around the world, giving them a competitive



The rise of the Indian Rupee in edge over their local rivals. The influx of foreign investment has also helped to create jobs and stimulate economic growth. All in all, the rise of international trade has been incredibly beneficial for India's economy and has helped to bring a much-needed boost to the country.

# About Agpaytech

Agpaytech Ltd. is a company pioneering in the Fintech Space with a focused approach to building robust technologies for eCommerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service White-Label Solution, Foreign Exchange, Cross Border Payments, and digital currency technology. We have partnered with multiple banks, non-banking financial institutions, and corporate organizations to create a solid service delivery model for them and their customers to ease their international remittances and payments concerns.  
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