



BANKING AND FINANCE

RBI Removes Hurdles For Rupee Trade Settlement, Boosting Global Use Of INR

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Introduction

On 5 August 2025, through Circular No. RBI/2025/26/71, the Reserve Bank of India (RBI) eased rules for Indian banks, enabling them to more easily enable trade settlement in Indian Rupees (INR) for foreign bank. Until now, banks had to seek RBI's prior approval before opening a *Special Rupee Vostro Account* (SRVA), a dedicated account that allows foreign banks to hold INR and process cross-border payments for trade with India.

Under the new circular, Category I Authorised Dealer (AD) banks can open SRVAs directly for foreign banks they already have correspondent relationships with, without prior RBI approval. This reform is expected to speed up rupee-based trade settlements, reduce procedural delays, and strengthen India's ongoing effort to position the rupee as a widely accepted currency in global trade.

Legal Background

The SRVA mechanism was first introduced by the RBI in July 2022 through the *A.P. (DIR Series) Circular No. 10*, enabling the settlement of international trade transactions in INR. Under this framework:

- Indian importers can make payments in INR into the SRVA of the correspondent bank of the partner country.
- Indian exporters receive INR payments credited to their domestic accounts from these SRVAs, against the supply of goods and services.

Previously, the opening of an SRVA by an AD Category I bank required case-by-case approval from the RBI. This was part of the RBI's initial oversight mechanism to ensure compliance with *Foreign Exchange Management Act, 1999* (FEMA) regulations and to verify the eligibility of overseas institutions.

The latest circular amends this process, allowing AD Category I banks to open SRVAs for any foreign bank they have correspondent arrangements with, without prior RBI approval while continuing to require compliance with KYC/AML/CFT norms and due diligence obligations under FEMA, 1999 and the *Prevention of Money Laundering Act, 2002*.

Why This Is Important

1. Operational Efficiency

- Removing the approval step significantly reduces timelines for setting up SRVAs, enabling faster onboarding of overseas partner banks.
- This helps avoid delays in trade settlement and enables quicker execution of export-import contracts.

2. Policy Alignment with Rupee Internationalisation

- The reform directly supports the Government of India and RBI's long-term strategy of promoting INR for cross-border trade.
- It complements other recent measures such as permitting non-residents to hold repatriable INR accounts abroad (January 2025) and proposals for overseas rupee lending by Indian banks.

3. Diversification of Trade Settlement Currencies

- By easing access to INR settlement channels, Indian exporters and importers can reduce reliance on the US dollar or other hard currencies particularly relevant amid currency volatility and sanctions-related restrictions in certain geographies.

4. Trade Competitiveness

- The ability to invoice and settle in INR can make Indian exports more attractive to certain trade partners by reducing foreign exchange conversion costs and exposure to third-currency risks.

5. Geopolitical and Economic Resilience

- With over 80 SRVAs already operational across more than 20 countries, the procedural relaxation strengthens India's alternative payment networks, which can be crucial during global financial disruptions or geopolitical sanctions affecting dollar-based settlements.

Conclusion

The RBI’s August 2025 circular is more than an administrative relaxation. It represents a key regulatory measure intended to promote wider adoption of the Indian Rupee as a settlement currency in cross-border trade. By empowering AD Category-I banks to independently open SRVAs while maintaining compliance safeguards, the measure reduces friction for businesses, strengthens the resilience of India’s trade settlement ecosystem, and advances the broader goal of positioning the rupee as a credible, widely-used international currency.

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