

India opens up investment options for Russia to channel rupee balance

Amiti Sen
NEW DELHI

Russia's payment woes with India may finally be coming to an end.

Thanks to allowances made by the RBI, Russian entities now have a bouquet of investment options – not just government securities and bonds but equity and loans – to channelise their accumulating rupee balance.

“Russia is no longer struggling to repatriate the rupee balance which has been continuously accumulating in its special vostro accounts in Indian banks due to increased shipments to India.

“The RBI, through various amendments to FEMA regulations and procedures, has made it possible for Russian entities to invest in a whole bouquet of avenues, which the country has started to make full use of now,” a top level source told *businessline*.

Vostro accounts

India and Russia put in place a rupee payment system to circumvent the West's banking and economic sanctions post its attack on Ukraine in February 2022.

Under the mechanism, a number of Russian banks, including Gazprom and Rosbank, opened rupee vostro accounts with authorised dealer banks in India such as UCO, HDFC and ICICI for enabling rupee trade between the two countries.

“The rising unused rupee balance in these accounts was a big concern for Russia, and it was trying to repatriate some of it



Growing trade ties: Russia is now India's second largest source of imports, after China, surpassing the UAE and the U.S. REUTERS

through various means, including converting it to dirhams or yuan. But, now, the rupee balance is being gainfully invested in the country itself,” the source said. India is also trying to identify projects for Russian entities to invest in such as the Vande Bharat sleeper trains project.

Russian investments

In October, the RBI enabled countries holding rupee accounts to invest in government securities/treasury bills. Recently, a FEMA (Foreign Exchange Management Act) regulation has been amended making it easier for foreign investors to trade in derivatives.

Equity, debt

Russia is also being allowed to invest in equity and debt and it has shown tremendous interest in doing so, the source added.

“Details of such investments are under wraps as private companies that have businesses in the U.S. and the EU are not too comfortable about disclosing them,” the source said.

Anyway, the West's economic sanctions against Russia are unlikely to have

a bearing on Russia's investments in India, he added.

“Why should the U.S. be bothered (about Russia's investments)? We are not dealing in dollars. And, it is Russia that is investing in India and not vice-versa,” the source said.

Russia is now India's second largest source of imports, after China, surpassing the UAE and the U.S.

In 2023-24, India's imports from Russia rose 32.95% to \$61.44 billion, while its exports were at \$4.26 billion resulting in a \$57.18 billion trade deficit.

“Most of India's imports from Russia comprises oil, but we are also buying defence equipment, fertilizers, edible fats and oil, and precious and semi-precious stones and jewellery.

“While payment for defence equipment was largely in rupee, that for Russian oil was in other currencies.

“Now that the rupee balance is finding various investment avenues, India can make a larger part of payment for Russian imports in its domestic currency,” the source added.

(The writer is with *The Hindu businessline*)