

India opens up investment options for Russia to channel rupee balance

October 27, 2025 • vajiramandravi.com



What's in today's article?

- Why in News?
- Increasing bilateral trade between India and Russia
- Existing payment settlement mechanism between India and Russia
- Payment issues faced by India and Russia
- New investment options for Russia

Why in News?

The RBI has allowed Russian entities to invest their rupee balance in various options like government securities, bonds, equity, and loans. This may soon end Russia's struggles with payments to India.

Increasing bilateral trade between India and Russia

- **Trade statistics**

- Russia is now India's second largest import source, after China, surpassing the UAE and the US.
- In 2023-24, India's imports from Russia increased 32.95 per cent to \$ 61.44 billion, while its exports were at \$4.26 billion, creating a trade deficit of \$ 57.18 billion.
- Most of India's import from Russia comprises oil, but there are also imports of defence equipment, fertilisers, edible fats and oil and precious and semi-precious stones and jewellery.
- While payment for defence equipment was largely in rupee, payment for Russian oil was taking place in other currencies.

- **Reasons behind the increase in bilateral trade**

- Since the start of Ukraine war on February 24, 2022, Moscow has been hit by Western banking and economic sanctions.
- Against this backdrop, it found a ready market for its goods, especially crude oil, in India and offered steep discounts.
 - Russia is now the largest supplier of oil to India, displacing traditional players such as Iraq, Saudi Arabia, and UAE.
- India, unlike the West, chose to not join the list of countries formally imposing sanctions on Moscow.

Existing payment settlement mechanism between India and Russia

- India and Russia put in place a **rupee payment system** to circumvent the Western countries' banking and economic sanctions against Russia following its attack on Ukraine in February 2022.
- Under the mechanism, a number of Russian banks, opened their rupee vostro accounts with authorised dealer banks in India for enabling rupee trade between the two countries.
 - A Vostro account is a bank account that a correspondent bank holds on behalf of another bank, often a foreign bank.
 - In this context, a rupee vostro account is a special account that authorized Indian banks open and maintain for the banks of their partner trading countries.
 - The account holds the foreign bank's holdings in the Indian counterpart in rupees.
 - When an Indian trader wants to pay a foreign trader in rupees, the amount is credited to the vostro account.

Payment issues faced by India and Russia

- **Dollar and existing channel like SWIFT were not an option**

- As part of war-induced sanctions on Moscow, the U.S., the EU, and the U.K. have blocked multiple Russian banks from accessing the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

- SWIFT is a global secure interbank system whose primary function is to facilitate the secure exchange of financial messages between banks and other financial institutions.
 - These messages typically involve instructions for transferring funds, such as payment orders, securities trading information, and other types of financial transactions.
- The West had targeted one of its biggest traded goods — energy — for which transactions have traditionally been dollar-dependent.
 - Western countries did so by imposing a price cap of \$60 per barrel.
- While India is not a formal signatory, it has tacitly agreed to maintain the price cap as much as possible.
- Also, banks and traders did not want to get involved in transactions that breach the oil cap over fears of repercussions for their funds.
 - Until recently, the blends of oil India was importing from Russia were largely below the price cap fixed by G-7 countries and India was able to pay for the oil using dollars.
 - However, Russia has lowered its discounts due to high demand from China and lower grade oil is now in short supply.
- **Challenges to rupee-rouble mechanism**
- This mechanism was considered as an alternative payment mechanism to settle dues in rupees instead of dollars or euros.
- However, as per the reports, this mechanism could not take off due to factors. This includes:
 - scepticism on the rupee-rouble convertibility as the rouble's value is kept up by capital controls and not determined by the market.
 - Russia finds the rupee to be volatile.
- The unforeseen surge in oil trade between India and Russia in one year alone has led to a massively ballooning trade deficit.
 - **India's trade deficit with Russia touched \$43 billion in 2022-23.**
 - India imported goods worth \$49.35 billion while its exports were at \$3.14 billion.
- This has led to staggering amounts of Indian rupees in Russian banks that cannot be used by Russia in its war efforts.

New investment options for Russia

• Background

- The rising unused rupee balance for Russian entities in these accounts was a big concern for Russia.
- It was trying to repatriate some of it through various means including converting it to dirhams or yuan.
- In this backdrop, new mechanism was launched to enable Russia to invest the rupee balance in India itself.

• New mechanism

- The RBI enabled countries holding rupee accounts to invest in government securities'/treasury bills in India.
- Recently, a FEMA (Foreign Exchange Management Act) regulation has been amended making it easier for foreign investors to trade in derivatives.
- Russia is also being allowed to invest in equity and debt.

- India is also trying to identify projects for Russian entities to invest in, such as the Vande Bharat sleeper trains project.
 - Russian investments in India will not attract Western sanctions as these are rupee investments.
-

Q.1. What is Society for Worldwide Interbank Financial Telecommunication (SWIFT)?

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a cooperative that provides a secure messaging system for international money transfers between banks. SWIFT is the industry standard for financial message syntax and allows financial institutions to securely exchange electronic messages and information about financial transactions.

Q.2. What is a vostro account?

A vostro account is a record of money that a correspondent bank holds for another bank, usually in the domestic currency of the country where the money is deposited.

Source: [Russia halts rupee repatriation as India offers bouquet of investment options, say sources](#) | The Hindu

Source: <https://vajiramandravi.com/current-affairs/india-opens-rupee-balance-investment-options-for-russia/>

© Vajiram & Ravi. For personal use only.