

F.No.20/15/2012-BO.II  
Government of India  
Ministry of Finance  
Department of Financial Services

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3<sup>rd</sup> Floor, Jeevan Deep Building  
Parliament Street, New Delhi  
**Dated the 14th August, 2012**

To

**THE CHIEF EXECUTIVES OF ALL THE PUBLIC SECTOR BANKS**

**Subject: Bilateral trade between India and other countries and invoicing of trade transactions in INR / Local currency of trade partner countries- INR / Local Currency Settlement Mechanism.**

Sir,

INR / Local currency settlement mechanism aims at putting in place a form of payment arrangement for trading partner countries of India to raise their invoices and receive payments in their respective home currency. The INR / Local currency settlement mechanism has been designed for the settlement of bilateral trade transactions between India and its trade partner countries, whereby both countries settle payments for their trade transactions on bilateral basis in INR / Local currencies.

**Rationale**

2. The need for this settlement mechanism in INR / Local currency is to increase bilateral trade ties between India and the trading partner countries and to strengthen their respective home currency for optimum benefit to the exporters / importers for facilitating bilateral trade transaction and also to promote trade between them.

**Objectives**

3. Broadly, the objectives of the INR / Local currency mechanism are:
- (i) To provide the facility to settle payments in home currency, on a bilateral basis, for current account transactions settlement between India and the trading partner countries;
  - (ii) To promote the use of participants' currencies in current account transactions between their respective countries;
  - (iii) To promote co-operation among the participants and closer relations among the banking systems in the two countries, and thereby, contribute to the expansion of trade and economic activity between the two countries;
  - (iv) The exporters / sellers of each country shall denominate the export contracts and invoices in their home currency thereby eliminating exchange-risk and resultantly, may discover competitive pricing.

**Mechanism**

4. All eligible transactions would be settled through the INR / Local currency mechanism. All export documents from India (import documents for other countries) – any

Contract, Letter of Credit, invoice, etc. can be denominated in INR and all import documents to India (export documents from other countries) can be denominated in the Local currency of that country. **The proposed mechanism is illustrated through an example of bilateral trade between India and South Africa, as under -**

- (i) The settlement of bilateral trade transactions between India and South Africa would be INR / Local currency settlement mechanism being put up in place between the set of branches of a bank (one in India and the other country),, SBI International Services Branch, Mumbai in India (ISB) and SBI Johannesburg in South Africa.
- (ii) A separate Nostro account in ZAR in the name of SBI (ZAR) a/c would be maintained with SBI Johannesburg in South Africa for the purpose of settlement of transactions under the Bilateral Trade Mechanism. Exporters of South Africa opting for this settlement mechanism would raise invoices in ZAR, submit documents to the nominated bank (say, SBI Johannesburg in South Africa in this case) for negotiations and receive payment in ZAR. Exporters in South Africa can also submit documents for negotiations to their local bank, who can obtain reimbursement from the proposed nominated bank, i.e., SBI Johannesburg in South Africa or through their own correspondent bank in India or their branch in India **or the branch of a South African bank in India.**
- (iii) SBI Johannesburg in South Africa would open an INR Vostro account with SBI International Services Branch, Mumbai for the settlement of transactions under this Bilateral Trade mechanism. Exporters from India opting for this settlement mechanism would raise invoices in INR; submit documents to their local bank in India for negotiations. Importers in South Africa can settle payment through their own local bank and pay ZAR to the nominated bank, i.e., SBI Johannesburg Branch for onward conversion and remitting of INR to Vostro account with SBI ISB, Mumbai. Alternatively importer's local bank can also debit the importer's account with ZAR equivalent to the INR invoice amount and remit INR directly to exporter's bank in India through their correspondent bank in India **or their branch in India or the branch of a South African bank in India.**
- (iv) **The above mechanism is also illustrated through 4 'Process Flow Charts' as in Annex.** [Export from India (Sight Document); Export from India (Usance Document e.g. 90 days); Import from South Africa (Sight Basis); Import from South Africa (Usance Basis)]

### **Eligible Transactions**

5. The following transactions are eligible under this mechanism -

- (i) Export / import transactions between the two countries.
- (ii) Trade related transfer of funds for a resident / firm / corporate from one country to a resident / firm / corporate of another country.

### **Settlement**

6. The settlement mechanism shall be made applicable, as under -

- (i) **Exchange rate:** USD / Local currency and USD / INR cross-rates shall be applied to arrive at the Local currency / INR exchange rate.

- (ii) **Export from India (Usance / Sight)** - No exchange transactions is involved as contract / invoice is denominated in INR. No forward cover is required to be booked by exporter.
- (iii) **Import in India (Usance / Sight)** – Exchange transaction mechanism will remain the same as is followed presently in case of any other permitted currency. Exchange rate for Local currency /INR may be obtained by the branch from their treasury for sight / forward contract payment. On due date, payment will be effected by debiting equivalent INR from importer account and remitting Local currency (ZAR) to SBI Nostro a/c proposed with SBI Johannesburg branch.

## **FEMA**

7. All foreign exchange control regulations apply to these transactions unless specifically indicated to the contrary. All transaction will be governed by the extant instructions of RBI's Master Circular on Imports and Exports issued each year, in the month of July. Recently, RBI has issued Master Circular on Imports of Goods and Service- Master Circular No. 13/2012-13 dated July 02, 2012; and Master Circular on Export of Goods and Services: Master Circular No. 14/2012-13 dated July 02, 2012. All export / import benefits / incentives presently available for permitted currencies will continue to be extended to the proposed INR / Local currency invoicing mechanism.

## **Export / Import incentives**

8. All transactions through INR / Local currency mechanism would be eligible for facilities available under PCFC / EBR in USD / EUR. Trade credits by way of buyer's credit as well as supplier's credit can also be extended for the proposed INR / Local currency invoicing mechanism.

9. All PSBs are requested to kindly take appropriate necessary action in this regard, under advice to this Department.

10. This has the approval of **Secretary (FS)**.

Yours faithfully,

**Encl: As above**

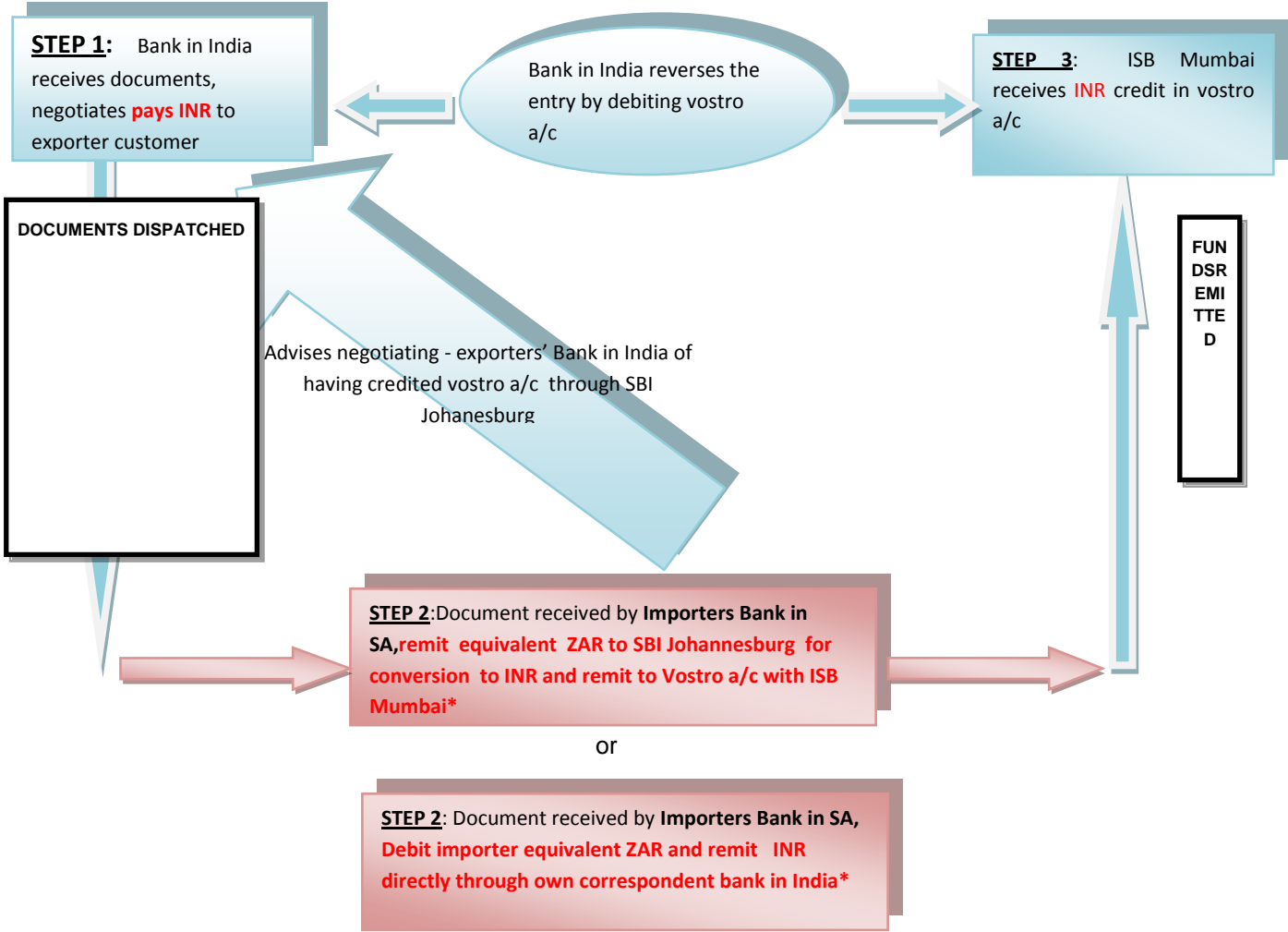
**(D.D. Maheshwari)**

Under Secretary to the Government of India

Tele: 23748750

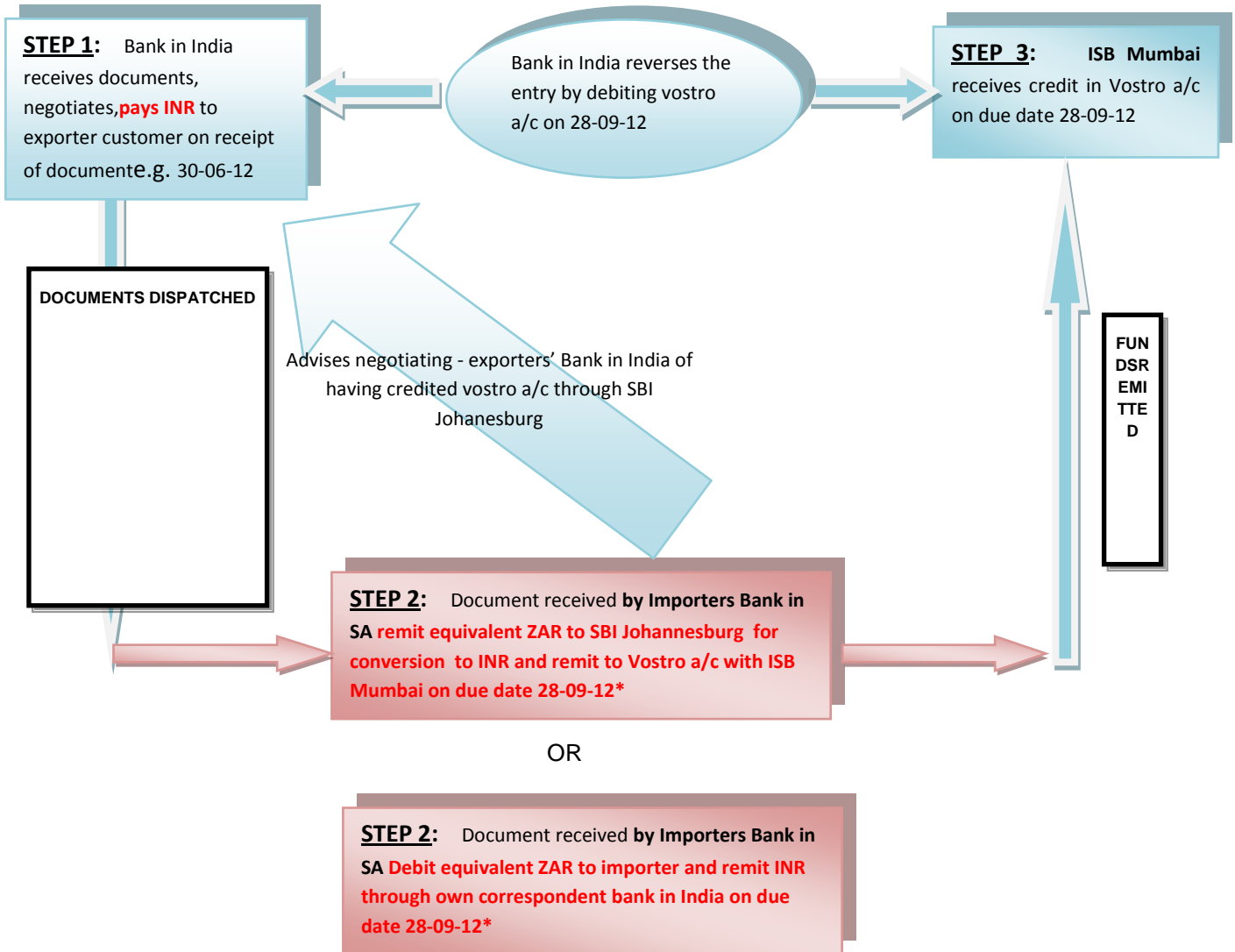
E-mail: [usbo2-dfs@nic.in](mailto:usbo2-dfs@nic.in), bo2@nic.in

**Export from India (Sight Document)**



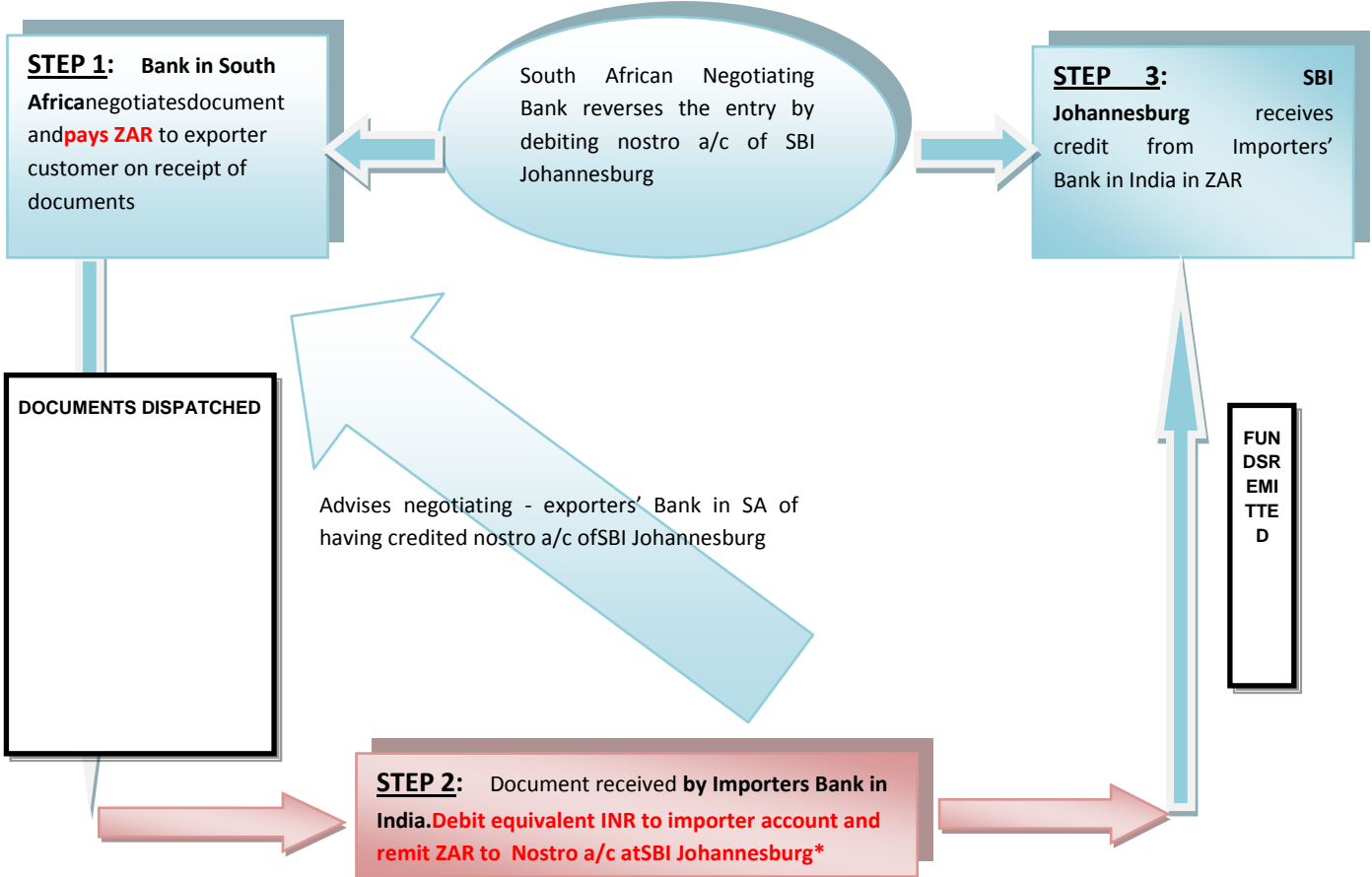
\* - indicates an exchange transaction

## Export from India (Usance Document e.g. 90 days)



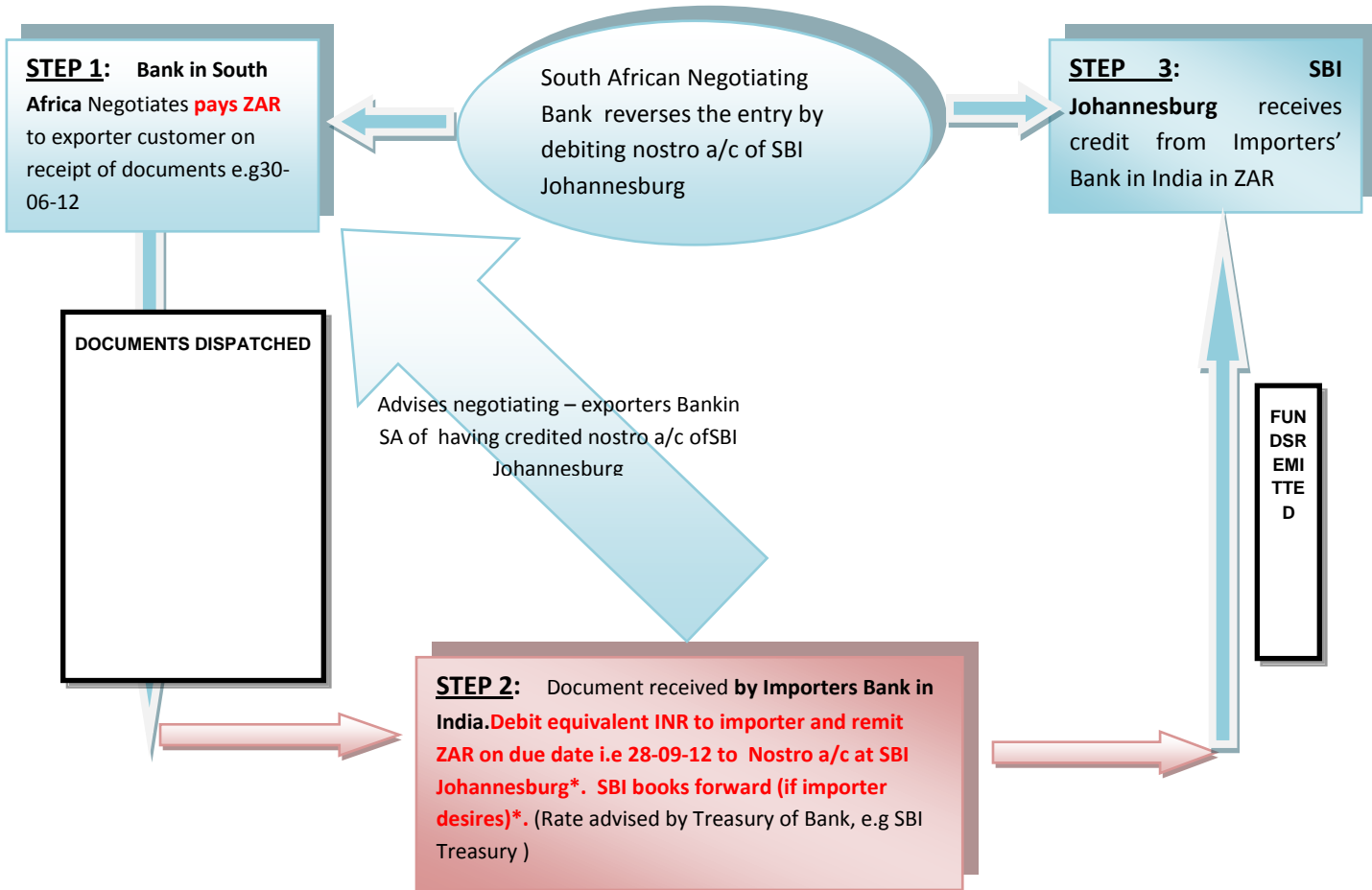
\* - indicates an exchange transaction

# Import from South Africa (Sight Basis)



\* - indicates an exchange transaction

# Import from South Africa (Usance Basis)



\* - indicates an exchange transaction