

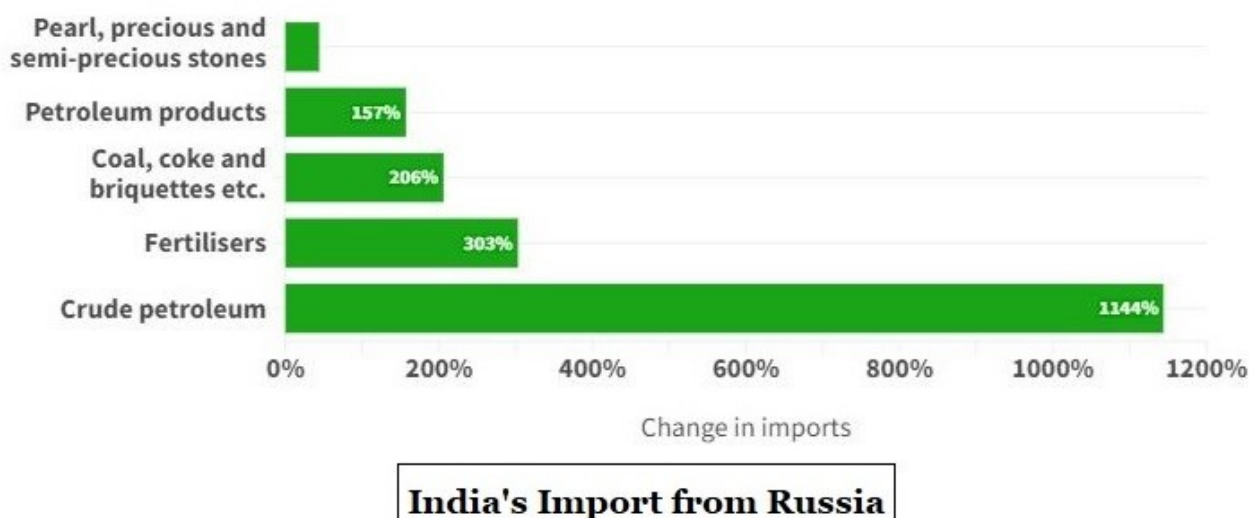
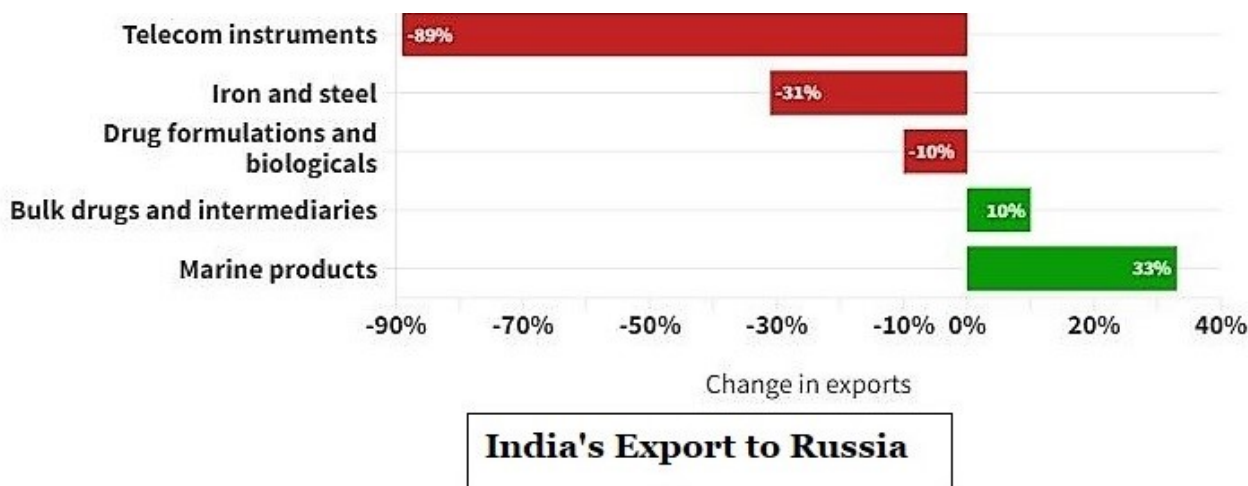
## India-Russia Payment Crisis

### Why in news?

As India continues to import oil from Russia, it is getting tougher for the country to pay for it.

### What is the current status of India's imports from Russia?

- As on 2022-23, *Russia is India's 5th trade partner*, after US, China, UAE and Saudi Arabia.
- **Imports-** Russia has become the *largest supplier of oil to India*, surpassing traditional players such as Iraq, Saudi Arabia, and the UAE.
- India's imports of crude oil from Russia increased nearly 13 times in 2022-23 compared to 2021-22.
- Due to countries sanction against Russia for its war over Ukraine, it has offered steep discounts especially for crude oil.
- **Trade Deficit-** India's *trade deficit with Russia* touched \$43 billion in 2022-23 as it imported goods worth \$49.35 billion while its exports were at \$3.14 billion. It is second in volume next to China.



### What are the issues with the existing payment methods?

- **SWIFT sanction-** Society for Worldwide Interbank Financial Telecommunication (SWIFT) system is a global secure interbank system.
- U.S., the European Union, and the U.K. have blocked multiple Russian banks from accessing the SWIFT system due to Russia's special military operation in Ukraine.
- **Dollar Payments-** Oil transactions have traditionally been dollar-dependent.
- **Cap on oil price-** Many countries decided to cap the price to a maximum of \$60 per barrel of Russian oil transported through waterways, this makes difficult to pay in dollar.
- **Geopolitical ramifications-** India has strained relationship with china since the border stand-off this will have a geopolitical ramifications for India to pay in Chinese Yuan.

### What about Rupee-Rouble trade arrangement?

- It is an alternative payment mechanism to *settle dues in rupees* instead of dollars or euros.
- The idea was first conceived in 1953 under the Indo-Soviet trade agreement.
- **Payments covered-** Commercial transactions and insurance, freight, port charges, storage and forwarding expenses and bunkering, distribution of films, technical

assistance, tours of commercial or cultural nature etc.,

- **Significance-** It will be helpful to overcome challenges in trade with Russia, including *managing payments* for exporters and importers.
- A rupee payment mechanism could play a pivotal role in deciding whether Indian exporters will get their payments and if trading can be continued with Russia.
- **Issue with Rupee-Rouble trade arrangement-** Rouble's value is *not market determined* and Rupee is considered *volatile* by Russia.
- Hence there is challenges with *Rupee-Rouble Convertibility*.

*The Russian ruble or rouble is the official currency of the Russian Federation.*

### What lies ahead?

- **Countering the trade deficit-** There is a need to bridge the trade deficit with Russia by increasing Russian investment in the energy and government bonds.
- **Rupee internationalisation** - Since the dollar is largely considered the global reserve currency, many countries have seen the U.S. sanctions as a way for America to weaponise the dollar.
- This has given rise to countries looking at **de-dollarisation** which means the replacement of the U.S. dollar with other currencies as the global reserve currency.
- India too, has recently released a roadmap for the [internationalisation of the Indian rupee](#) to create broader acceptance.

*Daily average share for the rupee in the global foreign exchange market is 1.6%, while India's share of global goods trade is 2%.*

### References

1. [The Hindu| Explained trade payment crisis](#)
2. [The Hindu| Russia export to India rise](#)
3. [Economic Times| What next in trade and investment](#)

