

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](#)