Rupee-Rouble Trade Arrangement

Why in news?

In the wake of sanctions against Russia, debates have been mounting for pushing the Rupee-Rouble trade arrangement.

What is rupee-rouble trade?

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

- Rupee-rouble trade is a payment mechanism which can allow Indian exporters to be paid in Indian rupees for their exports to Russia instead of standard international currencies such as dollars or euros.
- Under this arrangement, a Russian bank will need to open an account in an Indian bank while an Indian bank will open its account in Russia.
- Both sides can then mutually agree to hold currency worth a specified amount in the local currencies in their respective accounts.
- There has to be a notional value of equivalence, say in euro or dollar, to which the value of the rupee and rouble will be pegged and the exchange value has to be mutually decided.

- India has attempted the rupee-rouble payment mechanism with Russia on a very small scale for a few items like tea in normal times.
- A rupee-rial payment mechanism, however, had successfully worked in India's trade with Iran when economic sanctions were imposed on the country by a number of Western nations in 2012.

How critical is the rupee-rouble mechanism for India?

- It is important for India to have an alternative payment mechanism in place with Russia as many western countries have blocked several Russian banks from accessing the Society for Worldwide Interbank Financial Telecommunication (SWIFT).
- An estimated 500 million dollar is pending for goods already shipped by Indian exporters whose payment is not possible through the regular SWIFT channel.
- 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.

> *SWIFT is a global secure interbank system that communicates payment instructions and enables transactions between banks from all the countries around the world.*

What problems may crop up?

- **Value fluctuations-** The fluctuation in the value of rouble could make it difficult to implement the rupee-rouble payment mechanism.
- It will be difficult to decide a fair exchange rate between the rupee and the rouble.
- The rouble has weakened by more than 38% against the dollar this year.
- If the value of the rouble continues falling sharply, then trading may not happen as the rouble in the Indian bank's Russian account will lose value.



- **Strategic ramifications-** At present, there is only a sanction against the use of SWIFT and nothing to bar India from trading with Russia using alternatives such as a rupee-rouble payment mechanism.
- But, if the sanctions turn product-specific, then it may be difficult for India to use this arrangement.
- The US and the EU are already unhappy with India for abstaining at the UN Security Council and the UN Human Rights Commission on all resolutions that criticise Russia for invading Ukraine.
- If India helps Russia go against economic sanctions, it may then be accused of siding with Russia and this could hurt New Delhi's diplomatic relations with the Western powers.

Reference

1. https://www.thehindubusinessline.com/blexplainer/bl-explainer-rupee-rouble-trade-arrangement-will-it-work/article65200627.ece

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