Trade in rupee

India weighs rupee trade options with a number of countries to reduce the drain on forex reserves.

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To save precious foreign exchange, India is considering doing business with its major trading partners, including non-oil exporting nations, in their currencies.

The Finance Ministry, with which the Ministry for Commerce and Industry is in talks, is examining a list of countries that may favour this move.

Although the list includes important oil producers such as Nigeria, Saudi Arabia and Iraq, major crude suppliers such as Kuwait and the United Arab Emirates are not on it. Oil exporters, in general, are not interested in trading in local currencies because they have huge trade surpluses with India and have little to gain from rupee trade.

Task force

In 2013, the government formed a task force, which included representatives from banks and trade bodies, to draw up a list of countries with which India could consider doing its trade in rupees.

The report of the task force is now with the Finance Ministry, which will weigh issues such as banks through which payments are to be routed and invoicing and then prepare a shortlist.

Officials said a decision on the issue would have to wait for the new government. India's recent success in rupee trade was with sanction-hit Iran—it used the currency to import crude oil.

In a currency-swap arrangement, countries that buy from each other pay with their domestic currencies at predetermined exchange rates instead of trading in the U.S. dollar. This helps them save foreign exchange and thereby strengthen their domestic currencies.

"We have kept out countries that we know will never agree to a swap arrangement. We have included some countries in the arrangement because there are factors other than economic that could influence their decision," a Commerce Ministry official said. Iran willingly entered into a rupee-trading arrangement with India despite a huge trade imbalance because the economic sanctions imposed by the West had restricted its trading options.

The task force has tried to focus on countries with which India has a sizeable trade deficit in order to get the most benefit from the arrangement. However, in the case of China it has proposed a ceiling of $10 billion. This limit is aimed at stemming the flow of Chinese goods into India, which will further tilt the balance against India.

India is struggling to halt the depletion in its foreign exchange reserves and also bring down the current account deficit. Foreign trade in rupee will make India's balance of payments position more stable and make it an attractive destination for foreign investments.

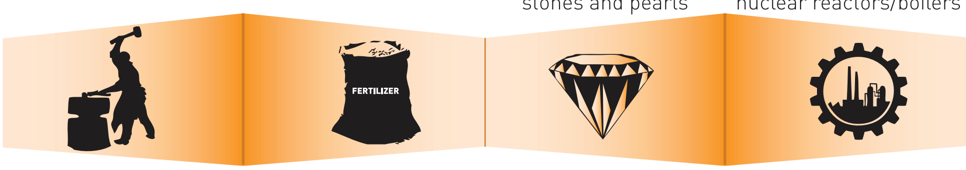
Foreign exchange reserves in India (In $ billion)

Item	March 2010	March 2011	March 2012	March 2013	March 2014
Foreign currency assets	254.68	274.33	260.06	259.72	269.81
Gold	17.98	22.97	27.02	25.69	20.97
SDRs*	5.00	4.56	4.46	4.32	4.47
Reserve position in IMF	2.79	2.94	2.83	2.30	2.01
TOTAL	280.45	304.81	294.39	292.04	297.28

* Special drawing rights

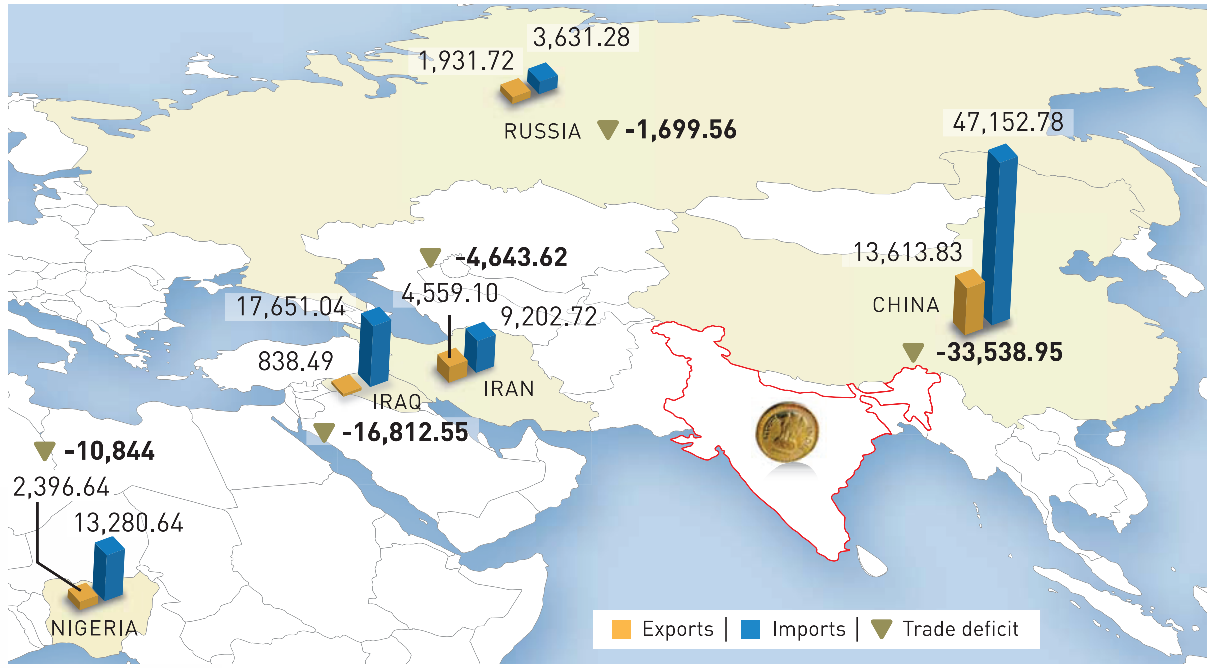
Source: RBI

Imports other than oil that could benefit from a rupee payment regime



India's export, import and trade balance with some of the countries that are potential rupee trade partners

(April 2013 to Feb 2014, in $ million)



Source: Ministry of Commerce and Industry

Countries with which India is considering trade in rupee

A. Bilateral trade settlement with exporter currency invoicing

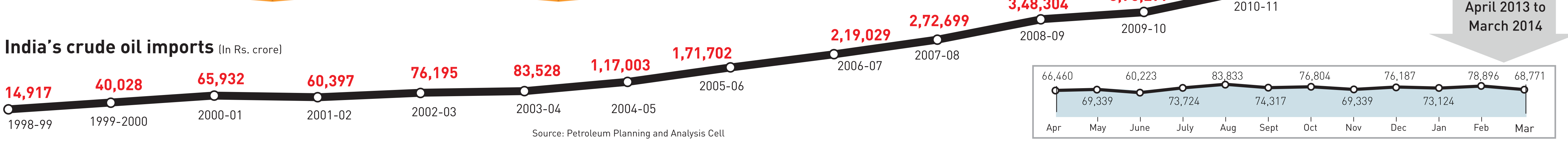
i) Backed by currency swaps: Australia, Chile, Japan, Korea, Mexico, Canada

ii) Without currency swaps, through other methods: China, Indonesia, Malaysia, Russia, South Africa, Thailand, Ukraine, Morocco, Columbia, Egypt, UAE, Brazil, Hong Kong, Israel, Kenya, Tanzania, Turkey, Vietnam

B. Trade settlement in Indian rupee: Myanmar, Pakistan, Sri Lanka

- Trade settlement through currency-swap mechanism: A swap mechanism is where there is an arrangement between two countries to buy or sell a given quantity of one currency in exchange for another at an agreed rate on a stipulated date.
- Trade settlement in bilateral local currency without currency swap: Importers and exporters from both countries can make payments and receive them in their own currency. The exchange rate would be derived through a ratio between the two currencies with both exchange rates based on wholesale exchange rates. The system does not cover any foreign exchange risk of the exporters/importers.

India's crude oil imports (In Rs. crore)



Source: Petroleum Planning and Analysis Cell