Rupee trade and its discontents

Finding alternative paths to buy oil from states under Western sanctions is stretching the government and RBI's creativity

SUBHOMOY BHATTACHARJEE
New Delhi, 18 April

ILLUSTRATION: BINAY SINHA

Even as India and Russia discuss a free trade agreement to deepen bilateral ties, the elephant in the room is the rupee trade. This is an issue to which not just Moscow but Iran, the other partner under Western sanctions, is also seeking answers.

In the context of the new trade architecture developing in the world to bypass the US dollar, bankers and traders with whom this correspondent spoke said the most difficult aspect of taking bilateral trade out of the multilateral system of mostly dollar-denominated trade is that the rules change with each country. "Sanctions are not the problem as much as how countries are unwilling to give up their advantage," said one trader who deals with both Iran and Russia. New Delhi has limited rupee trade with some countries but these are small and preliminary deals with countries with which India runs trade surpluses.

For instance, forex-strapped Iran has agreed to treat the Indian rupee as a reserve currency, said one of the bankers involved in the bilateral trade transactions between the two countries. But Russia, now India's largest crude oil supplier, is unwilling to play ball because its forex reserves have vastly expanded.

Russia has offered to use the Chinese yuan as a reserve currency but this is not acceptable to India. Pending the settlement, some of the payments for the Russian crude have been deferred, but this is only a hiatus. The real problems will begin when the EU price cap of $65 a barrel on Russian oil is breached, as it is bound to do soon after the OPEC Plus decision to cut production. The Ministry of External Affairs has reached out to the RBI with the same demand Indian traders have made — be a bit more creative in how rupee is traded overseas.

The Iranian agreement has helped in a number of ways, including paying the salaries of those employed at the Chabahar Port. This has also eased the terms for trade between the Indian rupee and the Iranian rial. Since Moscow does not consider the rupee a reserve currency, it makes the rules that govern India-Iran banking relationship difficult to extend there. This means when an Indian trader wishes to pay his counter-party in rupees for an export to Russia, there are no fixed rules on how to go about it.

What happens when, say, MRPL, a subsidiary of state-owned oil refiner IOC, the largest importer of Iranian crude, wishes to pay for the consignment in Indian rupees? "We have to think out of the box," said a banker. The US has no problem if MRPL pays for the consignment in dollars through designated US banks because this means the US Treasury, which monitors the sanctions, can keep tabs on how much crude is being sold. So trade volumes are necessarily limited.

For the rupee payment route, MRPL has to open an account with a designated Indian bank, usually UCO Bank, headquartered in Kolkata. That works because UCO Bank has no dealings with the US. Likewise, the exporter of crude, an Iranian company, also opens an account with an Indian bank (potential problems lie in the fact that MRPL also operates through Bank of Baroda, which has US operations).

The rupee payment from the Indian importer is transferred to the account of the Iranian oil company, which then transfers the sum to itself in Iran. It becomes an asset of the oil company against which an Iranian bank will purchase rupees from the oil company and give it Iranian rials. The rate depends on the underlying exchange rate between the two currencies, unsurprisingly denominated in US dollars.

Then the Iranian bank buys rials from the Central Bank of Iran paying for it with the Indian rupee. The rupee now enters the Iranian central bank's balance sheet. This is held by the central bank, partly as reserve and partly to pay for the demand from other Iranian companies for rupees to pay for their imports, such as tea, rice and basic engineering goods.

Since there is always a vast unmet demand within Iran for forex, the central bank is willing to hold some Indian rupee as reserves, too. But even then it runs a limit on how much rupee it will hold. Indian exporters to Iran have to operate within an annual limit of less than $1 billion. For the past few years, New Delhi has been pushing Tehran to increase this limit.

However, the same banker said, as the volume of trade with Iran has risen, the reserves held as Indian rupee have declined due to rising demands from traders, especially now that Iran's trade surplus with India is narrowing since New Delhi is buying more oil from Russia.

Besides, a via media has opened up through the UAE. Several Iranian importers invoice their trade in dirhams to buy from India. The Indian traders get their payments for the consignments in Indian rupee from the UAE.

But for Russia, the rupee is hardly tradable except to exchange with India, so it doesn't make sense for the Bank of Russia to hold any reserves. A reserve currency should be valid for trading between say, Russia and Indonesia, yet payable in Indian rupees. A non-resident account in an Indian bank that either Iran or Russia operates allows only for buying of Indian goods. Given that India runs a massive trade deficit with Russia, it is difficult to see what goods India can offer Russia.

The demand from Russia is the trigger that has made the RBI enthusiastically support the internationalisation of the rupee. However, there are concerns here, too. "Our concern is that a Russian invoice for a good may often be a cover for import of something else," said an RBI official. He is referring to weaponry or other goods proscribed by the G7.

Indian banks have also argued for alternatives, such as allowing a rupee-denominated loan to Russia, similar to the $4 billion line of credit that India has offered to Sri Lanka. But a loan to Russia will have to be commensurately larger and in any case can come through only when the war ends.

Of late, Moscow has become more willing to discuss options with New Delhi, after the G7-led cap on the price of its crude has begun to bite. Till prices were below the cap, trade was being settled in mostly UAE dirham. But with the OPEC Plus production cuts pushing up prices, the caps on the Russian grades have become irrelevant. But the UAE central bank has indicated to India it will not allow commercial banks there to breach the cap since they could fall foul of the sanctions. Recognising the problem, Finance Minister Nirmala Sitharaman said on the sidelines of the IMF-World Bank meeting, "We will have to constantly refigure where we get the best deal as it is a critical input for the economy." This will require fresh creativity.

THE INTERNATIONALISATION OF THE RUPEE

- India's push for rupee invoicing in international trade got momentum in Foreign Trade Policy (FTP) 2023, which proposes invoicing, payment and settlement of trade in Indian rupees
- Rupee currently accounts for a mere 2% of global currency market turnover
- Countries considering rupee trade include Russia, Saudi Arabia, Nigeria, UAE and Sri Lanka
- The first country to open a special Rupee Vostro account is Russia followed by Sri Lanka and Mauritius
- Effectiveness of rupee invoiced trade depends on India's net trade deficit/surplus plus extent of trading in rupees in comparison to the total bilateral trade
- There is a need to reduce capital account controls and reduce inflation
- It also requires a steady rate of low import duties and flexibility in banking rules for NRI; a possible start by promoting rupee loans

Fantasy sports revenue may cross ₹25,000 cr by FY27

ARYAMAN GUPTA & DEBARGHYA SANYAL
New Delhi, 18 April

The Indian fantasy sports industry has witnessed a prodigious rise in recent years. Revenue from the sector has grown 31 per cent to reach ₹6,800 crore in FY22, and is expected to cross ₹25,240 crore by FY27 at a 33 per cent CAGR, said a recent report.

With over 300 fantasy sports platforms (FSPs) and an estimated 180 million users, India is the fastest-growing fantasy sports market in the world. The sector, valued at ₹75,000 crore, is projected to reach 500 million in the next five years, according to a report by the Federation of Indian Fantasy Sports (FIFS) and Deloitte India.

A fantasy sport is a game, often played using the Internet, where participants assemble imaginary or virtual teams composed of proxies of real players of a professional sport. These teams compete based on the statistical performance of those players in actual games. Popular fantasy gaming platforms in India include two out the three gaming unicorns (firms with a valuation of over $1 billion) — Dream11 and MPL.

"Our analysis suggests that fantasy sports hold tremendous potential to help build a resilient sports ecosystem in India and significantly contribute to the nation's digital economy," said Prashanth Rao, partner, consulting, Deloitte India. "The increased allocation for sports in the 2023 Union Budget, new innovations, investor confidence and growing consumer demand will help generate fresh prospects for entrepreneurs and stimulate advancement of this sector in India."

The central government recently notified new rules for online gaming with a provision of creating multiple self-regulatory bodies (SRBs) to certify "permissible" real-money online games. These rules, industry watchers say, will provide much needed regulatory certainty to the sector and, in turn, further accelerate growth. Some lingering concerns, however, remain.

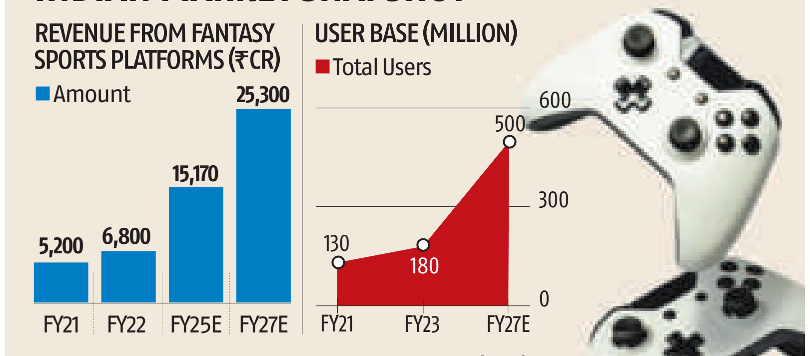
Despite central regulations, many states have expressed apprehension towards online gaming. A case in point is Tamil Nadu's recent blanket ban on e-gambling websites, which threw a spanner in the works for many gaming firms with operations in the state.

Joy Bhattacharjya, director-general, FIFS, said: "The varied responses from states were simply because they lacked clarity on the definition and regulations around games of chance and skills. Now that MeitY (Ministry of Electronics and Information Technology) has provided a clear regulatory framework, we expect a uniform approach across states."

"Our main aim would be to support the SRBs in terms of industry insights, and/or any technological help needed from our side. We would also hope that SRBs give opportunities to representatives of industry bodies."

(With inputs from Raghav Aggarwal)

INDIAN MARKET SNAPSHOT



REVENUE CONTRIBUTIONS TO THE EXCHEQUER (₹CR)

Period	GST	Corporate tax + TDS
FY18-22	2,800	1,700
FY23-27	17,500	13,000

Source: FIFS-Deloitte

India recorded one death every two days due to police firing or encounter in '21-22

ANOUSHKA SAWHNEY
New Delhi, 18 April

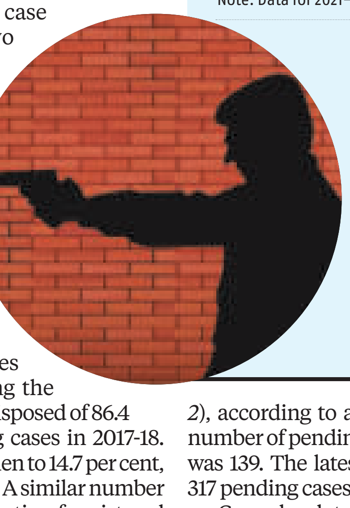
The National Human Rights Commission (NHRC) registered a case of death due to police firing or encounter every three days even during the pandemic.

Assailants shot dead former MP Atiq Ahmed on April 16, triggering a debate on extra-judicial killings. There were 179 cases registered in 2018-19, shows annual data from a Rajya Sabha reply in 2022. The analysis considered deaths due to police encounter or police firing.

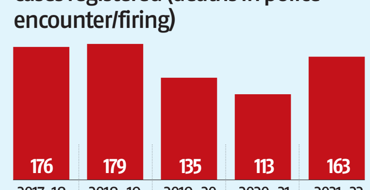
This works out to one case registered every two days. The number of such cases dropped to 135 in 2019-20 and 113 in 2020-21 amid Covid-19 restrictions. This works out to a case every three days. The number of deaths had begun to climb again in 2021-22 (*chart 1*).

The disposal of cases declined sharply during the pandemic. The NHRC disposed of 86.4 per cent of the pending cases in 2017-18. This disposal rate has fallen to 14.7 per cent, shows data as of 2021-22. A similar number for pending cases as a ratio of registered ones has risen. It was up from 13.6 per cent in 2017-18 to 85.3 per cent in 2021-22 (*chart 2*), according to a March 2022 reply. The number of pending complaints at the time was 139. The latest NHRC bulletin shows 317 pending cases as of March 2023.

Granular data show that some places have seen a greater increase than others after the pandemic began. In Assam, the number of police firing and encounter death cases rose from seven in 2018-19 to 24 in 2021-22. Jammu and Kashmir registered 39 cases in 2021-22, from zero in 2018-19. Uttar Pradesh had recorded 24 deaths in 2018-19. The figure was nine in 2021-22 (*chart 3*).

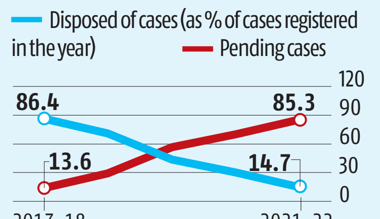


ENCOUNTER CASES RISING AGAIN AFTER PANDEMIC



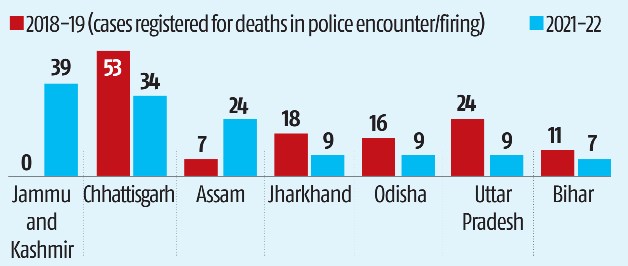
Note: Data for 2021-22 is till March 10, 2022

CASE DISPOSAL HAS DECLINED



Source: Rajya Sabha

J&K SAW HIGHEST NUMBER OF CASES IN '21-22



Note: Comparison of states, which were top seven in 2021-22; data for 2021-22 is till March 10, 2022

Source: Rajya Sabha