



Falling Rupee Reserves of Iran

Why in News

Recently, Indian merchants have almost entirely stopped signing new **export contracts** with Iranian buyers due to caution about **Iran's falling rupee reserves** with Indian banks.

- Earlier in 2020, the Ministry of External Affairs informed that [India is no longer involved in the Farzad-B gas field project of Iran](#). The reasons included **policy changes by the Iranian government, Iran's uncertain finances, and the USA sanctions situation**.
- In 2020, Iran also passed a bill allowing the government to slash four zeros from the Rial and authorizing its replacement with [another basic unit of currency called the toman \(redenomination\)](#).



Key Points

- **Falling Reserves:**
 - Iran's rupee reserves in India's **UCO and IDBI Bank**, the two lenders **authorised to facilitate rupee trade**, have depleted significantly.
- **Reasons:**
 - Under the [USA sanctions](#), **Iran is unable to use US dollars** to transact oil sales.
 - Iran previously had a deal to sell oil to India in exchange for rupees, which it used to import critical goods, including agricultural commodities, but [India stopped buying Tehran's oil in May 2019 after a US sanctions waiver expired](#).

- Iran **continued using its rupees to buy goods** from India, but **after 22 months of no crude sales, Iran's rupee reserves have fallen.**

- Iran's reserves have reduced significantly and will be over soon probably because trade has stopped.

▪ **Implications:**

- **Apprehension of Exporters:**

- Exporters are **not sure whether they would be paid on time** for new shipments and they are avoiding dealing with Iran since payments are getting delayed.

- **Falling Indian Exports:**

- India's overall exports to Iran **fell 42% in 2020** from a year ago to USD 2.2 billion, the **lowest in over a decade.**
- The **fall is continuing in 2021** and in January this year exports more than halved from a year ago to **USD 100.20 million.**

- **Growing Influence of China:**

- Recently signed deals between Iran and China will **vastly expand Chinese presence** in banking, telecommunications, ports, railways and dozens of other projects.

- **Saving India's Interests:**

- The **China Iran strategic partnership** fructifying USD 400 billion deal may be an impediment for Indian entry routes into Afghanistan through [Chabahar](#) and further connectivity to [International North South Transportation Corridor \(INSTC\)](#), although Iran has not given any signals of disruption of these projects.

- **India's Role in the Region:**

- Maintaining ties with Iran even as it forges a new relationship with Saudi Arabia and Israel is critical for **its balancing policy in West Asia.**

- **Avoiding Sectarian Tension:**

- Since **India is home to sizable populations of both Shia and Sunni Muslims** and seeks to isolate itself from any **sectarian tensions** in the region, India should do well to neither completely break off ties with Iran nor go against the United States outright.

- **India's Energy security:**

- India has stopped purchasing Iranian oil, which accounts for around **90% of its imports from the Islamic nation.**

- India was Iran's **leading oil client** after China until **mid-2018.**

- **Peaceful Afghanistan:**

- India, having made significant investments in Afghanistan, will always hope for an Afghan elected, Afghan led, Afghan owned peace and reconciliation process and a popular democratic government in Afghanistan.
- However, India has to be watchful of **Iran - Pakistan- China axis** developing in the neighbourhood of Afghanistan, with tentacles in the form of terror groups inside it.

- **Pakistan's Influence:**

- Pakistan is very active in the Middle-east. Using the platform of [Organisation of Islamic Cooperation \(OIC\)](#) and making connections with the particular Arab countries, Pakistan is trying to get support on the [Kashmir issue.](#)

Way Forward

- In 2019, New Delhi seems to have weighed in favor of Indo-USA ties by deciding to halt oil imports from Iran. However, it will have to find a way, either by persuading Washington to grant an exemption or by circumventing USA sanctions like it did in 2012-13, to continue its relationship with Iran in order to **secure its energy supply** and its regional foreign policy objectives.
- India is very **reliant upon Middle East oil and gas** and must maintain cordial relations with most of the major suppliers, including **Iran**, UAE, Qatar, and Saudi Arabia, as well as Iraq.

Source:TH

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