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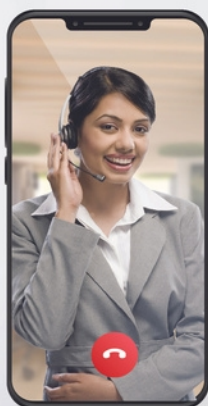
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De-Dollarisation Debate

Examining a multi-polar financial world



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De-Dollarisation Debate

Dealing with a multi-polar financial world

"The narrative around de-dollarisation tends to resurface during times of uncertainty. But at present, we're not seeing anything close to a collapse in demand for US dollar assets."

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SIB Students' Economic Forum' is designed to kindle interest in the minds of the younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is **De-dollarisation Debate**.

For nearly eight decades, the US dollar has sat at the centre of the global financial system - the dominant currency of trade invoicing, foreign exchange reserves, commodity pricing, and cross-border banking. The architecture built around this dominance, from the Bretton Woods institutions to the SWIFT messaging network, has shaped how banks everywhere - including in India - conduct international business. Yet the foundations of this system are showing signs of strain that would have seemed implausible even a decade ago.

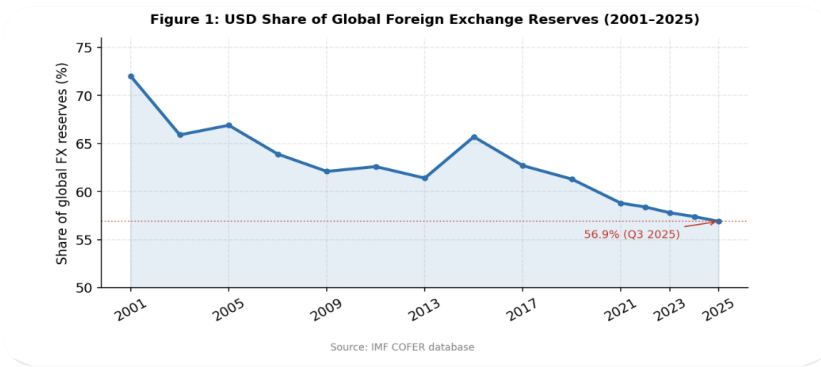
The weaponisation of the dollar through financial sanctions, the rise of BRICS as a coordinated geopolitical and economic bloc, the development of alternative payment infrastructure, and the growing appeal of local currency trade settlement have together made de-dollarisation one of the most consequential debates in global finance. For Indian banking specifically, this debate is not abstract. Indian banks are navigating a world in which their largest trading partners include both countries aligned with the dollar system and countries actively seeking to circumvent it - and in which India itself is simultaneously a beneficiary of and a potential challenger to dollar dominance.

This article examines the global de-dollarisation trend, India's nuanced position within it, the concrete implications for Indian banks' international strategy, correspondent banking relationships, and foreign currency risk management, and the opportunities and dangers that a gradual shift toward a multipolar financial world presents.

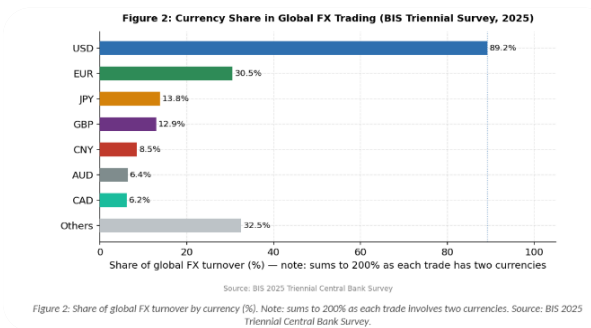
The Dollar's Grip: Strong but Slowly Loosening

Understanding the de-dollarisation debate requires first understanding the true scale of dollar dominance and the pace at which it is changing. The IMF's COFER database shows that the dollar's share of global foreign exchange reserves stood at 56.92% in Q3 2025, down from a peak of 72% in 2001 and approximately 85% in the 1970s. The decline is real but gradual. More tellingly, the BIS 2025 Triennial Central Bank Survey found the US dollar on one side of 89.2% of all foreign exchange transactions - actually up from 88.4% in 2022 - and global FX trading hit

\$9.6 trillion per day. The renminbi, despite years of Chinese internationalisation effort, accounted for just 8.5% of global FX turnover and 1.93% of disclosed global reserve holdings.



These figures convey an important truth: de-dollarisation, in aggregate terms, is a slow and uneven process. The dollar's network effects - the liquidity of dollar markets, the depth of US Treasury markets as a safe haven asset, the global reach of dollar-clearing infrastructure - create powerful structural incumbency. Replacing these is not a matter of political will alone; it requires decades of institutional development, market deepening, and trust-building that no alternative currency or system has yet achieved at comparable scale.



And yet the direction of travel is unmistakable in specific corridors. Central banks purchased 1,045 tonnes of gold in 2024, the third consecutive year above 1,000 tonnes and more than double the

annual average from 2010 to 2021, according to the World Gold Council - a clear signal of reserve diversification away from dollar assets. In the Russia-BRICS trading corridor, over 90% of Russia's transactions with BRICS partners are now settled in Rubles and local currencies of friendly states, a dramatic shift driven by sanctions pressure. China's Cross-Border Interbank Payment System (CIPS) processed the equivalent of USD1.26 trillion in yuan-denominated transactions in 2025. These are not marginal developments. They represent the emergence of real, operational parallel infrastructure.

The BRICS Factor and the Weaponisation of SWIFT

The single most powerful catalyst for de-dollarisation has been the use of the dollar as a weapon of geopolitical coercion. The disconnection of Russian banks from SWIFT following the Ukraine invasion in 2022 was a watershed moment. It demonstrated, with dramatic clarity, that access to the global dollar-clearing system is not a commercial right but a geopolitical privilege - one that Western powers can withdraw unilaterally and at speed. Countries observing this lesson - not just adversaries of the West but many non-aligned nations - drew the rational conclusion that dependence on dollar infrastructure creates systemic vulnerability.

BRICS Pay, unveiled at the Kazan Summit in 2024, is the most visible institutional response. The system aims to enable direct transactions between participating countries using national currencies, integrating existing domestic payment infrastructures - including China's CIPS, India's UPI, Brazil's Pix, and Russia's SPFS - into an interoperable cross-border network. Its technical implementation remains at an early stage, with deep disparities in financial regulation, capital mobility, and political trust among member states presenting significant obstacles. But it is real, and its trajectory is toward greater functionality.

India assumed the BRICS chairship in January 2026, and the Reserve Bank of India has placed the linking of BRICS Central Bank Digital Currencies (CBDCs) on the agenda for the 2026 New Delhi summit. India's e-rupee, which has reached 7 million retail users since its 2022 launch, and China's digital yuan are the most advanced CBDC implementations in the bloc, and their technical interoperability is actively being explored.

The RBI has also approved 123 correspondent banks from 30 trading partner countries to open 156 Special Rupee Vostro Accounts (SRVAs) with 26 Indian banks, enabling bilateral trade settlement in local currencies across a widening network of partner nations.

India's official posture on de-dollarisation is, however, carefully calibrated. External Affairs Minister S. Jaishankar has been explicit: *"I don't think there's any policy on our part to replace the dollar. The dollar as the reserve currency is the source of global economic stability, and right now what we want in the world is more economic stability, not less."*

The RBI's CBDC proposal for the BRICS summit is framed around interoperability and financial efficiency, not dollar displacement. This reflects India's delicate position - a strategic partner of the United States and a leading member of a bloc that includes countries actively seeking to reduce dollar dependence.

India wants the optionality that comes from alternative payment infrastructure without the geopolitical cost of openly challenging the dollar system.

Special Rupee Vostro Accounts: Mechanics and Banking Implications

The Special Rupee Vostro Account mechanism is the most concrete instrument of India's de-dollarisation-adjacent policy. A Vostro account is one held by a domestic bank on behalf of a foreign bank, denominated in the domestic currency. Under the RBI framework introduced after 2022, foreign banks from trading partner countries can open SRVAs with Indian banks, enabling imports from and exports to those countries to be settled in rupees without routing transactions through dollar-clearing channels.

For Indian banks, the SRVA framework creates both opportunity and complexity. On the opportunity side, it positions India's largest banks - State Bank of India, Bank of Baroda, Union Bank of India, and select private sector banks - as hubs in a growing network of local currency trade finance. As more of India's bilateral trade (particularly with Russia, UAE, Sri Lanka, Malaysia, and African nations) flows through rupee channels, Indian banks managing these accounts earn fee income, transaction revenues, and expanded client relationships. The internationalisation of the rupee, even at the margin, deepens the role of Indian banks in global trade finance - a strategically significant expansion of their footprint.

On the complexity side, SRVAs have surfaced a fundamental structural problem: the accumulation of non-convertible rupee balances. When India imports more than it exports from a partner country, that partner accumulates rupee surpluses in its Vostro accounts that it cannot easily deploy outside India. Russia, for example, accumulated large rupee balances from crude oil sales to India that could not be repatriated in dollars. These balances had to be invested in Indian government securities or used to purchase Indian goods and services - which is not always commercially convenient for the counterparty. A 2025 RBI directive allowing non-residents to invest SRVA surplus balances in Indian government securities and Treasury Bills was an important step in addressing this - converting a settlement mechanism into a yield-generating investment channel - but the convertibility constraint remains a structural limitation on rupee internationalisation at scale.

Correspondent Banking: Pressure from Both Sides

Indian banks' correspondent banking relationships - the network of accounts and bilateral arrangements through which they route international payments - are under unprecedented pressure from two opposing directions simultaneously.

From the Western side, the intensifying sanctions environment is squeezing Indian banks' relationships with US and European correspondent banks. Western financial institutions, wary of secondary sanctions exposure from any transaction touching sanctioned entities, have applied heightened scrutiny to Indian bank transactions - particularly those involving commodity trade with Russia or the Gulf. De-risking by Western correspondents, a trend that pre-dates the Russia-Ukraine war but has accelerated sharply since 2022, has seen some Indian banks find their dollar-

clearing relationships strained, delayed, or in some cases restricted. Recent Iran-related geopolitical tensions and its associated sanctions escalation has compounded this pressure further, as any transaction touching Iranian-linked entities, even indirectly, triggers compliance scrutiny from Western correspondents.

From the Eastern side, the development of CIPS, BRICS Pay, and bilateral payment arrangements with Russia, UAE, and other partners is creating alternative routing options for trade flows that previously moved through dollar channels. Indian banks are being asked to participate in and develop capacity on these alternative networks - building CIPS connectivity, managing SRVA accounts, and developing capability in rupee-rouble and rupee-dirham settlement. This requires investment in new technology, compliance frameworks, legal expertise, and operational processes.

The net result is that Indian banks are being pulled in two directions at once. Maintaining strong dollar-clearing correspondent relationships requires demonstrating rigorous compliance with Western sanctions frameworks and demonstrating that the bank is not a conduit for sanctions circumvention. Simultaneously, developing alternative payment infrastructure to serve India's evolving trade relationships requires building capability in non-dollar channels - which can create optics of tension with Western counterparts. Navigating this requires exceptional strategic clarity and compliance sophistication.

Foreign Currency Risk Management in a De-Dollarising World

De-dollarisation fundamentally changes the foreign currency risk profile of Indian banks. In a dollar-dominant world, foreign currency risk is predominantly rupee-dollar risk - a bilateral exposure that is well-understood, heavily traded, deeply liquid, and hedge-able through a mature derivatives market. As trade flows diversify into rupee-rouble, rupee-dirham, and rupee-yuan channels, Indian banks face a proliferation of currency pairs, each with its own liquidity profile, hedging market depth, and risk management complexity.

The rupee-rouble pair illustrates the challenge acutely. Russia is now India's largest crude oil supplier, with Indian refiners purchasing approximately 60 million barrels of Russian crude per month as of early 2026. Much of this is settled through mechanisms that involve rupee deposits converted into UAE dirhams or other currencies for repatriation by Russian sellers. The multi-leg nature of these transactions - rupee to dirham to Ruble, or Rupee to Yuan - introduces basis risk, settlement risk, and counterparty risk that is far more complex to manage than a straightforward dollar transaction. The hedging instruments for these exotic pairs are far less liquid than dollar hedges, bid-ask spreads are wider, and the regulatory frameworks governing cross-currency derivatives in some of these markets are less developed.

Central banks diversifying reserves into gold rather than alternative currencies add another dimension. India's own reserve management has incorporated significant gold accumulation, following a global central bank trend. While this reduces dollar-denominated sovereign risk, gold is illiquid in crisis situations and does not yield interest - creating its own asset-liability management challenges for institutions managing large reserve pools.

Indian banks must therefore invest in building genuine multi-currency risk management capability - treasury teams with expertise in non-dollar currency pairs, risk systems that can handle complex multi-leg settlement structures, and legal frameworks for enforcing bilateral payment arrangements in multiple jurisdictions. This is not merely a technology challenge; it requires deep human capital development in areas where Indian banking expertise is currently thin.

The Triffin Dilemma and the Limits of Rupee Internationalisation

India's ambition to internationalise the rupee confronts a fundamental economic paradox known as the Triffin Dilemma - the observation that a country whose currency serves as a global reserve currency must run persistent trade deficits to supply the world with adequate liquidity in that currency, but persistent deficits undermine the credibility and stability of that currency. The United States has lived with this dilemma since Bretton Woods, accepting the exorbitant burden of reserve currency status alongside its exorbitant privilege.

For India, the dilemma manifests as a structural tension: to make the rupee internationally attractive, India must deepen its capital markets, liberalise its capital account, and allow non-residents to hold and transact in rupees freely. But capital account liberalisation exposes India to volatile cross-border capital flows that can destabilise the rupee and complicate monetary policy - a risk that the RBI, scarred by the 2013 taper tantrum and the currency volatility of 2018, manages with studied caution.

The 2025 directive allowing SRVA balances to be invested in Indian government securities is a step toward capital account deepening, but full convertibility remains a distant goal.

India's trade deficit has already widened in early 2026 due to the Iran war-related energy shock - a reminder that the external sector pressures associated with wider rupee use could exacerbate existing imbalances at precisely inopportune moments. For Indian banks, which must manage their own foreign currency balance sheets in this uncertain environment, the gradual opening of the capital account is a source of both opportunity and risk: more international business, but also more exposure to the volatile capital flow dynamics that accompany greater financial openness.

Opportunities for Indian Banks in a Multipolar Financial World

Against these risks, de-dollarisation and the shift toward a multipolar financial world create genuine strategic opportunities for Indian banks that are well-positioned to seize them.

India's strategic autonomy - its membership of both the Quad and BRICS, its diplomatic relationships with both Washington and Moscow, its reputation as a non-aligned financial partner - gives Indian banks a unique positioning advantage. In a world of financial fragmentation, Indian banks can potentially serve as trusted intermediaries between Western financial networks and emerging alternative systems. An Indian bank that can clear both dollars and rupees, that maintains relationships with both US correspondent banks and CIPS participants, and that can structure transactions that are compliant with both Western and emerging-market regulatory frameworks is a genuinely differentiated financial institution.

The internationalisation of UPI presents another strategic opportunity. UPI's interoperability with payment systems in Singapore, UAE, France, Mauritius, Sri Lanka, and several other nations is already expanding India's digital payment footprint internationally. As BRICS Pay develops and seeks to integrate domestic payment platforms, UPI's proven scale and technological maturity position it as one of the most credible components of any emerging cross-border payment architecture. Indian banks that are deeply embedded in the UPI ecosystem and that develop cross-border UPI capabilities can ride this expansion to a larger international client base.

The New Development Bank - the BRICS-affiliated multilateral institution - has committed to 30% local currency financing across its project portfolio. As NDB expands its project book, Indian banks with NDB relationships stand to participate in local currency project financing across BRICS member countries, expanding their trade finance and project lending footprints in markets where they currently have limited presence.

Regulatory and Strategic Priorities

For Indian banks to navigate the de-dollarisation transition successfully, several regulatory and strategic priorities stand out.

First, the RBI must continue to develop the regulatory framework for non-dollar settlement in ways that provide banks with legal clarity, operational guidance, and compliance standards. The SRVA framework is a good start, but gaps remain around dispute resolution, convertibility mechanisms, and cross-border regulatory coordination with partner central banks.

Second, Indian banks must invest in multi-currency risk management capability - technology, human capital, and legal expertise in non-dollar currency pairs and

settlement mechanisms. This is an area where the gap between India's large public sector banks and global best practice is widest, and where investment is most urgently needed.

Third, Indian banks must manage their Western correspondent banking relationships with exceptional care, ensuring that participation in alternative payment infrastructure does not compromise their compliance standing or dollar-clearing access. This requires transparent communication with Western correspondent banks, robust sanctions screening for all non-dollar payment flows, and board-level oversight of reputational exposure in this sensitive area.

Conclusion

The de-dollarisation debate is neither a passing trend nor an imminent rupture. It is a structural, multi-decade shift toward a more multipolar financial world - driven by geopolitical fragmentation, the weaponisation of financial infrastructure, and the gradual development of viable alternatives. For Indian banking, it represents both a strategic challenge and a genuine opportunity. The challenge lies in navigating a world of dual financial systems - maintaining access to dollar infrastructure while building capability in rupee and BRICS-linked channels, all while avoiding the compliance landmines of a more fragmented sanctions landscape. The opportunity lies in India's unique positioning as a trusted financial partner across geopolitical divides, the growing international footprint of UPI, and the gradual internationalisation of the rupee.

The banks that will thrive in this environment are those that invest now in multi-currency capability, regulatory sophistication, and strategic clarity about their role in a world where the dollar remains dominant but is no longer the only viable option. As the global financial order slowly rebalances, the choices Indian banks make in the next five years will shape their international standing for a generation.

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