

Internationalization of Rupee

Why in news?

India is strategically planning to enhance bilateral trade with Russia to \$100 billion by 2030 in an effort to reduce its rising oil import costs and dependency on the US dollar.

What is internationalization of rupee?

- **Internationalisation** - It is a process that involves the *use of a currency* for more and more *cross-border transactions*.
- **Internationalisation of rupee** - It is a process that involves increasing the use of the rupee in cross-border transactions.
- It involves *promoting the rupee for import and export trade* and then other current account transactions, followed by its use in capital account transactions.
- These are all transactions *between residents in India and non-residents*.

According to the BIS Triennial Central Bank Survey 2022, if rupee turnover rises to equal the share of non-US, non-Euro currencies in global forex turnover (4%), it will be regarded as an international currency.

- **Pre-requisite** - It requires further *opening up of the currency settlement* and a *strong swap and forex market*.
- More importantly, it will require *full convertibility of the currency on the capital account* and cross-border transfer of funds without any restrictions.
- India has allowed only full convertibility on the current account as of now.

Currently, the US dollar, the Euro, the Japanese yen and the pound sterling are the leading reserve currencies in the world.

Factors Determining the Global Position of a Currency

- Size of the economy
- The reach of its trade and financial networks
- The depth and liquidity of financial markets
- A history of macroeconomic stability
- Currency convertibility

What are the significances of internationalization of rupee?

- **Mitigates risks** - The use of the rupee in cross-border transactions *mitigates currency risk* for Indian businesses.

- **Promote businesses** - Protection from currency volatility *reduces the cost of doing business*.
- It also enables better growth of business, improving the chances for Indian businesses to grow globally.
- **Reduce forex dependences** - Internationalisation of the rupee *reduces the need for holding foreign exchange reserves*.
- While reserves help manage exchange rate volatility and project external stability, they impose a cost on the economy.
- **Insulate from external shocks** - Reducing dependence on foreign currency will make India *less vulnerable to external shocks*.
- **Higher bargaining power** - It will provide India with *higher bargaining power* in international markets.
- **Improve global status** - Higher bargaining power of Indian businesses add weight to the Indian economy and enhances India's global stature and respect.

What are the challenges in internationalization of the rupee?

- **Regulatory constraints** - Stringent regulations and policies may not support or facilitate the international use of the rupee.
- **Liquidity issues** - Limited liquidity of rupee-denominated assets in global markets can be a barrier to its wider acceptance.
- **Unbalance trade** - India's meagre exports to Russia mean could force India to use the Chinese yuan.
- **Exchange rate volatility** - It can deter international investors and trade partners from using the currency.
- **Economic stability concerns** - Issues like inflation, fiscal deficits, and political factors, can affect confidence in the rupee.
- **Infrastructure & technological barriers** - It hinders the progress for seamless cross-border rupee transactions.
- **Smaller market depth and size** - The relatively smaller size and depth of India's financial markets can be a limiting factor.
- **Lack of international financial centers** - India's limited number of globally recognized financial centers can hinder the rupee's internationalization.
- **Limited global acceptance** - The rupee is not widely accepted in global trade.

What are the measures taken by India?

- **Rupee-denominated bonds** - *Masala bonds* allows Indian entities to raise funds from overseas markets in Indian rupees, reducing dependency on foreign currencies.
- **Special Rupee Vostro Accounts (SRVAs)** - The RBI has allowed 20 banks, operating in India, to open 92 Special Rupee Vostro Accounts (SRVAs) with partner banks from 22 countries to *promote bilateral trade in a local currency*.
- **Rupee accounts for non-residents** - Encouraging non-residents to open rupee accounts both *within India and abroad* to facilitate international transactions in rupees.
- **International use of RTGS** - Promoting the use of Real Time Gross Settlement (RTGS) systems *for cross-border trade transactions* to facilitate quicker and more

secure payments.

- **Currency swap agreements** - Establishing currency swap agreements with various countries to *provide liquidity* and promote the use of the rupee in international trade.
- There are rupee deals with Singapore and the UAE.



RBI's Nod for 18 Countries to Trade in Indian Rupee



18 countries banks are now eligible to open Special Vostro Accounts (SVRAs) to settle payment in Indian Rupee.



- **Liberalized remittance schemes** - Easing regulations on remittances to allow more outward flow of rupees, which helps in increasing its international use.

Indian currency beyond India

- **Gulf rupee** - In 1959, the Centre allowed the RBI to issue special notes only for the Gulf region.
- It had the same value as the Indian rupee and was known as the Gulf rupee or external rupee.
- It was the legal tender in the Gulf countries, including Kuwait, Bahrain, Qatar and UAE, till the early 1970s.
- **Haj notes** - Indians could also take the Indian rupee notes when they went on the Haj pilgrimage and exchange them freely for Saudi riyals.
- Later, the Centre introduced special notes for the pilgrimage with the word "HAJ" inscribed on it called "Haj notes".

What lies ahead?

- Strengthen financial market by fostering a global 24x5 rupee market.
- Recalibrate the FPI (foreign portfolio investor) regime.
- Include Indian government bonds in global indices would boost the internationalization of the rupee.
- Review taxes on masala bonds.
- Take efforts for the inclusion of the rupee in IMF's (International Monetary Fund) SDR (special drawing rights).

The Special Drawing Rights (SDR) is an international reserve asset created by

the IMF to supplement the official reserves of its member countries. Its value is based on a basket of 5 currencies (U.S. dollar, Euro, Chinese renminbi, Japanese yen and the British pound sterling).

References

1. [The Indian Express| Unbalanced Trade with Russia affects Rupee Internalisation](#)
2. [The Indian Express| Internalisation of Rupee](#)

