

# The Internationalization of the Rupee

## Why in news?

The Reserve Bank of India (RBI) has put in place the mechanism for rupee trade settlement with as many as 18 countries.

## What is internationalization of Rupee?

- **Internationalization of the Rupee** - It is the process of increased cross-border transactions involving the Indian currency.
- It corresponds to trade especially in import-export, current account transactions, and capital account transactions.
- **International settlement** - This would enable the international settlement of trade in Indian rupees in foreign trades, as opposed to other currency including US dollars.
- The goal of internationalizing the rupee is to make it a more widely accepted currency in international trade and investment.

## What are the benefits of internationalizing rupee?

- **Mitigate exchange rate risk** - Internationalization of the INR can lower transaction costs of cross-border trade and investment operations by mitigating exchange rate risk.
- **Reduce risk** - Eliminates the risk of exposure to currency volatility faced by Indian businesses.
- **Exports becoming competitive** - Reducing currency risk can reduce the cost of doing business and can hence help in making exports more competitive in the global market.
- **Increased financial integration** - Help to integrate the Indian financial system with the global financial system.
- This could lead to increased investment and economic growth.
- **Reduced need for foreign exchange reserves** - The need to maintain foreign exchange reserves can reduce if a sizeable share of India's trade can be settled in terms of the domestic currency.

## What are the challenges to internationalize rupee?

- **Process being complex** - Rupee-trade arrangements have not been easy to implement.
- Trade arrangement with Russia is not yet fully operational even after a year-long engagement between the two partner countries.
- **Large trade deficit** - With Russia would saddle Russia since with large rupee balances, it would have to find a way to use or invest.

- **Small market** - The Indian economy is not as large as some other economies, so there is less demand for the rupee in the global financial markets.
- **Too much regulation** - The Indian government has a number of controls on the rupee and these controls make it difficult for the rupee to be used as a global currency.
- **Lack of liquidity** - The Indian rupee is not as liquid as some other currencies, so it can be difficult to buy and sell large amounts of rupees.

### What is the way forward?

- India should learn from China's Experience of China's success in internationalizing the renminbi (RMB) and it also had trade surplus across the world.
- Currency swap agreements and creation of offshore market should be enhanced.
- Considerable thinking and planning would be required to make it function in a manner that does not adversely affect the economy's fundamentals.
- Allow the settlement of foreign trade in rupees.
- Create special rupee-denominated bonds.
- Promote the use of the rupee in international payments.

### References

1. [The Hindustan Times | Challenges, Internationalization Of Rupee](#)
2. [The Hindu Business Line | Benefits, Internationalization Of Rupee](#)

