

## 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](#)

