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RBI's Report On “Internationalisation Of Rupee”

Why And What Are The Benefits?

Why In The News?

- India Is Aiming To Make The **Rupee A Global Currency**. Pushing For A Roadmap Towards The Internationalization Of The Rupee, The **Reserve Bank Of India’s (RBI) Inter-Departmental Group (IDG)** Made Few Important Recommendations.
- These Recommendations Are Significant, Considering The **Economic Sanctions Imposed By The US On Russia** For Invading Ukraine And The Growing Clamour For Finding An Alternative To The US Dollar For International Transactions.
- With India Remaining One Of The Fastest-Growing Countries And Showing Remarkable Resilience In The Face Of Major Headwinds, **The Rupee Has The Potential To Become An Internationalized Currency**.



What Is Internationalizations Of The Rupee?

- Internationalization 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. The Internationalization Of The Currency, Which Is Closely Interlinked With The Nation’s Economic Progress, Requires Further **Opening 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. China's Efforts To Make Its Currency **Renminbi** Has Met With Only Limited Success So Far.



Why Is Such Move Needed?

- Currently, **The US Dollar Is Said To Enjoy An 'Exorbitant Privilege'**, Which Refers To The Innumerable Benefits That Accrue To The US On Account Of All Other Countries Of The World Using The US Dollar As Their Currency In Most Of Their International Transactions, Among Global Currencies.
- The Dollar's Position Is Supported By A Range Of Factors, Including:
 - The Size Of The US Economy
 - The Reach Of Its Trade And Financial Networks
 - The Depth And Liquidity Of US Financial Markets, And
 - A History Of Macroeconomic Stability And Currency Convertibility.
- **Dollar Dominance Has Also Benefited From The Lack Of Viable Alternatives.**
- According To The RBI's Working Group, The **Obvious Challenger To The US Dollar Dominance Is The Chinese Renminbi.**
- However, Its Ability To Rival The US Dollar Will Depend On Future Policies In Both The US And China And The Ability Of The Chinese Economy And Its Financial System To Demonstrate The Same Long-term Resilience, Integrity,

Transparency, Openness And Stability, Which Are Characteristics Of The US Economy.

- In The Wake Of The **Sanctions Imposed On The Russian Government**, Its Public Sector And Even Individuals Linked To The Government, Many Countries Have Become Cautious Of The Price They May Have To Pay If They Are Subjected To Similar Sanctions By The Western Governments.
- China, Russia And A Few Other Countries Have Become More Vocal In Questioning The **US Dollar-dominated Global Currency System**. The Rbi-appointed Group Feels That It Is Imperative For India To Continue Exploring Alternatives To Both The USD And The Euro.



Advantages Of Internationalization Of The Rupee

- The Use Of The Rupee In Cross-Border Transactions **Mitigates Currency Risk For Indian Businesses**. Protection From Currency Volatility Not Only Reduces The Cost Of Doing Business, But It Also **Enables Better Growth Of Business**, Improving The Chances For Indian Businesses To Grow Globally.
- While Reserves Help **Manage Exchange Rate Volatility** And Project External Stability, They Impose A Cost On The Economy. Internationalization Of The Rupee **Reduces The Need For Holding Foreign Exchange Reserves**.
- **Reducing Dependence On Foreign Currency** Will Make India Less Vulnerable To External Shocks. As The Use Of The Rupee Becomes Significant, The **Bargaining Power Of Indian Businesses Would Improve**, Adding Weight To The Indian Economy And Enhancing India's Global Stature And Respect.

What RBI Said About The Report?

- In A Press Release, RBI Has Clarified That The Report Reflects The Views Of The Inter-departmental Group And Does Not Reflect The Official Position Of The Reserve Bank. The **Apex Bank Will Examine The Report And Then Decide On Whether And How The Recommendations Can Be Implemented.**



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