



Indian National Rupee (INR)- soon to be International?

What is happening in the banking regulatory landscape?

The Reserve Bank of India (“RBI”) recently shared an inter-departmental group (IDG) report (“Report”) on its website paving way for a new topic to debate on. As per the IDG report, there is a future possibility of Rupee becoming an international currency.

However, clearing the air, RBI stated that the said Report does not reflect any official position of RBI and is only recommendatory.

Potential Impediments

The Report acknowledges that any benefit accruing from the internationalization of the Rupee may go largely to the private sector, reducing ‘exchange rate risk’ and increasing new profit opportunities for financial institutions. However, it may also result in increased volatility of its exchange rate in the initial phases.

Strategies to Accelerate Internationalisation

Capital Account
Convertibility
(CAC)

Continuous and calculated approach towards CAC by improving macroeconomic fundamentals and financial market infrastructure with an enhanced safeguard.

INR Liquidity

INR liquidity is necessary at the government and central bank levels (both local and foreign) in order to promote the use of INR on a global scale as it will give all interested parties, economic agents, and market participants the necessary confidence to settle international transactions in INR.

Cross-border
Payment
Infrastructure

The availability of a reliable cross-border payment system in INR as well as fast interbank transfers and settlement is a crucial requirement. This may lessen India’s reliance on global payment systems in addition to lowering transaction costs.

Extant
Provisions

Existing regulations and guidelines such as the Foreign Exchange Management Act, Know Your Customer (KYC) Regulations etc., must facilitate and ease the flow of INR-based trade transactions.

Bolstering
Financial
Markets

Advanced domestic financial markets should provide confidence to foreign participants to invest in the domestic currency.

Vehicle
Currency

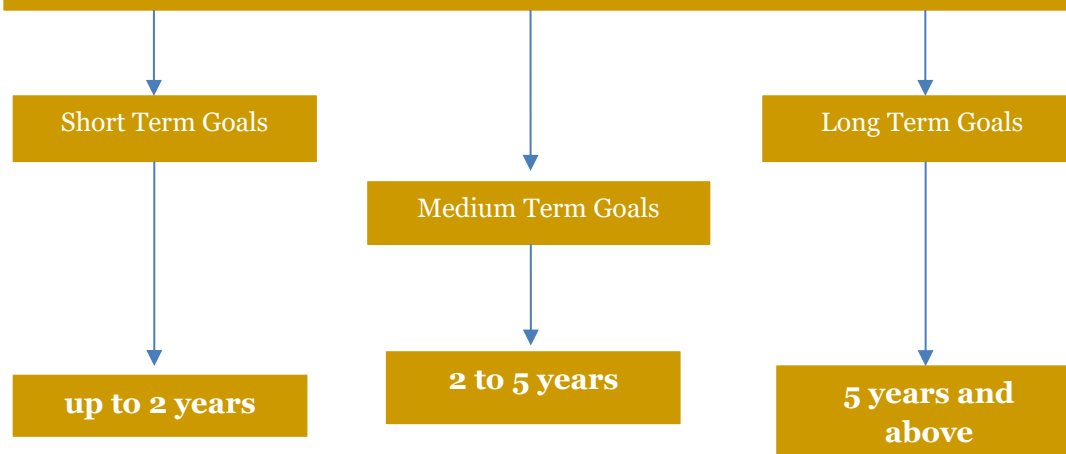
With developed trade relations with other countries, as well as greater CAC, deep and liquid financial markets and strong macroeconomic indicators, it is expected that INR would be used by other economies as “vehicle currency” by other jurisdictions in their forex intervention to maintain the value of their currency.



Key Recommendations (for the way forward...)

Confirming the capability of INR to become an international currency, the Report proceeds to discuss evolution of internationalization of currency through the experiences of major currencies across the world i.e., US dollar, Euro, Australian dollar and Chinese Renminbi.

The Report divides the recommendations into three categories of objectives to be achieved based on period of implementation:



Other recommended measures as suggested by the Report are:

Bolstering financial markets;

Boosting the usage of INR in the international realm through offshore branches of Indian banks;

Enabling the rupee as an additional settlement currency in multilateral mechanisms such as the Asian Clearing Union by fostering a five-day round-the-clock global rupee market as well as;

Equal treatment to exporters for settling trades in INR;

Allowing non-residents to open INR accounts both in India and outside the country and further integration of Indian payment systems with foreign countries; and

Resolving tax issues pertaining to free investments in Indian market.



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