International Journal of Science and Research (IJSR)
ISSN: 2319-7064
SJIF (2022): 7.942

How Internalisation of Rupee Helps to Growth of Indian Economy

Prince Kumar Prajapati[1], Dr. Amit Kumar Sinha[2]

[1]Student (BBA Final Year), Amity Business School, Lucknow, Amity University Lucknow, Uttar Pradesh, India

[2]Professor, Amity Business School, Lucknow, Amity University Lucknow, Uttar Pradesh, India

Abstract: ***The internationalization of the Indian Rupee (INR) presents a pivotal opportunity for India's economic growth and global financial integration. This paper synthesizes key findings from existing literature and policy recommendations to elucidate the implications of rupee internationalization on India's economy. Through a comprehensive analysis, it is evident that the INR's internalization offers multifaceted advantages, including reduced currency risks, enhanced trade dynamics, and strengthened macroeconomic stability. However, challenges such as attaining sufficient scale, ensuring rupee stability, and fostering liquidity persist. To address these challenges, policy recommendations emphasize controlled internationalization, leveraging democratic stability, and fostering financial market development. Additionally, future research avenues are identified, including sustainable growth policies, strategies for market depth, regulatory measures for currency convertibility, advocacy for global acceptance, fiscal and monetary policy impacts, and effective currency management. By implementing these recommendations and advancing research in these areas, India can navigate the complexities of rupee internationalization, thereby propelling its economic growth and bolstering its position in the global financial landscape.***

Keywords: Rupee Internalisation, Indian Economy, Globalisation, Currency Risk, Economic Integration, Forex Reserve, Exchange Rate, Financial Sector, Foreign Direct Investment, Capital Flows, Trade Liberalisation, Trade Dynamics, Financial Transactions, Payment Integration

1. Introduction

The process of making the Indian Rupee more globally accepted is dynamic and entails gradually raising the amount of local currency used in cross-border transactions. First and foremost, the goal is to promote the rupee for commerce in goods and services, with the eventual goal of expanding its use to include other current account activities. The incorporation of the rupee into capital account transactions is the goal. A diverse strategy is needed for this progression, including expanding currency settlements, and building a strong swap and FX market. Achieving complete currency convertibility on the capital account is crucial because it enables unlimited cross-border money transfers. India has currently only achieved complete current account convertibility. This development is an important aspect of India's foreign policy and economic policy, and it reflects a calculated attempt to increase the rupee's acceptability across the world. The internationalization of the rupee is set to be a key factor in changing India's economic outlook and strengthening its position in the global economy, as the government moves to streamline foreign commerce in rupees and increase its participation in international markets. Notably, before moving on to capital account usage, this path entails promoting the rupee's use in import and export commerce as well as other current account activities. The goal of total capital account convertibility—which would make it possible to convert domestic financial assets into international financial assets and vice versa—remains essential to boosting the rupee's reputation and acceptability abroad. The internationalization of the rupee fits with India's strategic goals, replicating changes in the world economy and making the rupee a strong participant in international finance amidst the dominance of currencies such as the US dollar, Euro, Japanese yen, and pound sterling.

Significance of Internationalization in Economic Growth:

- Currency risk is reduced for Indian enterprises when using the rupee in international dealings. The probability of Indian enterprises expanding globally will be higher if they can efficiently establish a business while being shielded from currency fluctuations.
- Excessive foreign currency obligations of local enterprises lead to actual domestic tightening. Reversals in capital flows would have less of an effect if one's exposure to currency risk was significantly reduced.
- There is less needed to keep foreign exchange reserves on hand. Reserves assist limit exchange rate volatility and project external stability, but they also influence the economy. India becomes less susceptible to outside shocks by reducing its reliance on foreign money.
- Increased commerce and acceptability of the rupee would provide Indian businesses greater negotiating power, which would strain the Indian economy and boost India's stature and regard internationally. By doing this, India would be able to evade restrictions and sanctions from the West and diversify its trading basket. To evade sanctions.
- As the rupee becomes more globally used, its value will rise. Put otherwise, it will lead to a rise in the rupee's demand in international trade. The capital account is gradually being liberalized in accordance with the evolving macroeconomic conditions and the needs of the Indian financial, industrial, and individual sectors.

Objectives

The primary objectives of this research are twofold:

- To examine the current Indian Rupee's internationalization process. This entails assessing the actions done, the difficulties encountered, and the anticipated benefits.

- To clarify how internationalization of the rupee contributes to economic expansion. This entails highlighting how it affects foreign exchange reserves, trade balances, and macroeconomic stability in general.

Overview

This report unfolds in a structured manner to provide a comprehensive understanding of the internationalization of the Indian Rupee and its implications on economic growth. The subsequent sections delve into the historical context, status, policy measures, advantages, challenges, and steps taken. A focused analysis is presented, exploring the reasons prompting the need for Rupee internationalization, the advantages it offers, the challenges encountered, and the strategic steps taken by the government and regulatory bodies.

In the subsequent sections, the report navigates through the advantages and challenges associated with the internationalization of the Rupee, followed by an exploration of the steps initiated to facilitate this process. The way forward, encompassing potential measures for a successful internationalization, concludes the report, emphasizing the pivotal role of Rupee internationalization in shaping India's economic future.

2. Literature Review

The literature on the internationalization of the Indian Rupee delves into the process of enhancing its acceptance in international trade and as a reserve currency, referred to as the "internationalisation of the rupee." According to Kenen (2011), an international currency is one that is kept and utilized outside of the borders of the nation that issued it. It is significant to note that this includes transactions between non-residents as well as transactions with citizens of the issuing nation.

This multifaceted process involves negotiating currency exchange agreements with other nations and facilitating direct foreign investment in Indian markets. The Indian government is strategically working to augment the rupee's liquidity and appeal as a global medium of exchange, taking steps to enable its trading on international markets.

Efforts aimed at boosting the rupee's internationalization and making it more attractive for cross-border trade include encouraging its use in import and export transactions and other current account operations. This incremental approach emphasizes building momentum before progressing to capital account usage. Currently, the global reserve currency landscape is dominated by the US dollar, the Euro, the Japanese yen, and the pound sterling. Notably, China's endeavours to internationalize its currency, the renminbi, have encountered limited success thus far.

The literature review provides a comprehensive understanding of the historical context, status, advantages, challenges, and policy recommendations associated with the internationalization of the Indian Rupee. It explores the essential prerequisites for a currency to achieve international status and traces the evolutionary journey of the Indian Rupee within this framework. The synthesis of key findings underscores the strategic measures taken by the Indian government, acknowledging both the opportunities and obstacles in the path towards making the rupee a globally accepted currency. Here is a synthesis of key findings:

Prerequisites to Become an International Currency

A few requirements must be fulfilled for a currency to become an international one. These include:

- Expanding currency settlement.
- Building a strong swap and forex market; and
- Realizing complete currency convertibility on the capital account.
- Unrestricted cross-border money transfers should be allowed.

Historical Context

- **Legal Tender in the Gulf:** During the 1950s, nations such as the United Arab Emirates (UAE), Kuwait, Bahrain, Oman, and Qatar accepted the Indian rupee as legal tender. The British pound sterling was exchanged for rupees by these Gulf monarchs.
- **Introduction of the Gulf Rupee:** The Reserve Bank of India (Amendment) Act, which was passed in 1959 to address difficulties linked to gold smuggling, resulted in the introduction of the "Gulf Rupee." The central bank created this new currency especially for use in West Asian countries. Indian currency holders had six weeks to exchange it, and everything went off without a hitch.
- **Decline of Gulf Rupee:** However, India depreciated its currency in 1966, which led to certain West Asian nations substituting their own currencies for the Gulf rupee. The emergence of independent currencies in the region occurred gradually because of a lack in confidence over the stability of the Indian rupee and an economic boom powered by oil.
- **Demonetization:** Additionally, the 2016 demonetization strategy had an impact on people's confidence in the Indian rupee, especially in Bhutan and Nepal. These nations are still worried about possible policy shifts in the future from the Reserve Bank of India, particularly the prospect of additional demonetization. The decision to remove the ₹2,000 note in 2023 has also had an impact on the rupee's value.

Advantages

- **Mitigates currency risk for Indian businesses:** Indian enterprises can reduce their exposure to currency risk by using the rupee in international dealings. In addition to lowering operating costs, this decrease in currency volatility gives Indian businesses greater prospects for expansion. It increases the likelihood that Indian companies may confidently grow internationally.
- **Reduces dependence on foreign exchange reserve**: The rupee's internationalization lessens the requirement to maintain sizable foreign exchange reserves. India's

Paper ID: SR24329232545 DOI: https://dx.doi.org/10.21275/SR24329232545

reliance on foreign exchange helps it become less susceptible to external shocks. Without having a major negative impact on the economy, this decreases in reliance on reserves also aids in projecting external stability and controlling exchange rate volatility.
- **Improves bargaining power and global stature:** Indian enterprises would have more negotiating power as the rupee's use in overseas transactions grows in importance. The Indian economy is given more weight in talks and business dealings because of this enhanced bargaining power. As a result, it raises India's standing and respectability internationally and strengthens its place in the world economy.

Disadvantages

- **Increased exchange rate volatility:** The rupee will be more vulnerable to changes in the world financial markets since it is exchanged more often. This may result in increased transaction costs and make it more challenging for investors and businesses to organize their financial activity.
- **Less autonomy in monetary policy:** If the rupee was traded more extensively, the Reserve Bank of India (RBI) would have less control over its value. The RBI may find it more challenging to control inflation and other macroeconomic factors as a result.
- **Higher risk of capital flight:** If foreign investors hold a larger percentage of the rupee, there is a higher chance that they will sell their holdings and take their money out of India. A financial crisis and the depreciation of the rupee could result from this.
- **Enhanced susceptibility to external shocks:** As the rupee integrates more with international financial markets, it will be more susceptible to outside shocks like fluctuations in interest rates or commodity prices. This can result in economic instability in India.

The recommendations of RBI working group

The working group, under the direction of RBI Executive Director Radha Shyam Ratho, has made several suggestions to quicken the rupee's internationalization. These suggestions cover short-, medium-, and long-term actions.

Short-Term Measures:

- Using a uniform methodology to evaluate proposals for trade agreements, including bilateral and multilateral, that include payment and settlement in local currencies and rupees.
- Promoting the opening of rupee accounts for non-residents in India and abroad.
- The fusion of Indian and foreign payment systems to enable seamless cross-border transactions.
- Fortifying the financial system by creating a worldwide 24x5 rupee market.
- Recalibrating the regime for foreign portfolio investors (FPIs) to increase efficacy.

Medium-Term Measures:

- Examining the taxation on masala bonds, which are bonds issued by Indian companies outside of India denominated in rupees.
- Encouragement of cross-border commercial transactions using Real-Time Gross Settlement (RTGS) on a global scale.
- Indian government bonds have been included in international bond indices.

Long-Term Measures:

- Promoting the rupee's inclusion in the Special Drawing Rights (SDR) of the International Monetary Fund (IMF).
- The U.S. dollar, the euro, the Chinese yuan, the Japanese yen, and the British pound sterling make up the basis of the Special Drawing rights (SDR), an international reserve asset established by the International Monetary Fund (IMF).

Measures suggested by RBI

- The demand for and acceptability of the rupee as a reserve currency would rise if it were added to the International Monetary Fund's (IMF) Special Drawing Rights (SDR) basket.
- More international investors would be able to access the Indian bond market through recalibrating the foreign portfolio investor (FPI) regime, which would also improve the market's depth and liquidity.
- Rationalization of the tax structure for masala bonds, which are bonds issued abroad by Indian companies denominated in rupees. As a result, these bonds would be more affordable and appealing to investors as well as issuers.
- Lower transaction costs and risks would result from the integration of Indian payment systems with those of other nations, facilitating cross-border trade and rupee remittances.
- Permitting Indian banks to provide financial services in rupees outside of India will strengthen the rupee's network and encourage non-residents to utilize it.

Key Themes, Theories, And Debates:

The internationalization of the rupee may have three main features:

Convertibility: This indicates that there are no limitations or government regulations on the rupee's ability to be freely swapped for other currencies. Depending on how far the capital account has been liberalized, convertibility may be either partial or complete. India currently has a partial convertibility regime, meaning that capital account transactions are subject to several restrictions and rules while current account transactions are fully convertible.

Acceptability: This indicates that other nations and entities accept and utilize the rupee as a medium of exchange for business and financial transactions. Acceptability is influenced by a few variables, including the size and stability of the Indian economy, the strength and resilience of the banking system, the depth and liquidity of the country's financial markets, and the legitimacy and independence of the monetary policy.

Attractiveness: In terms of trade and financial transactions, foreign nations and institutions favour the rupee over other currencies. The competitiveness and diversity of Indian exports, the cost and accessibility of hedging tools, the degree and volatility of inflation and exchange rates, and the institutional and legal framework for enforcement and dispute settlement are some of the variables that determine an asset's attractiveness.

Implications for India

- Increasing the risk of external shocks and volatility for the Indian economy since shifts in the demand and supply of rupees can be influenced by shifts in the state of the world economy and public opinion.
- Reducing the RBI's policy autonomy and flexibility since it must strike a compromise between preserving financial stability, exchange rate stability, and price stability within a more liberalized system for capital accounts.
- Increasing the government's accountability and responsibility as, to preserve trust with foreign stakeholders, it must implement prudent economic policies, structural reforms, and good governance.
- Giving domestic financial sector companies greater possibilities and challenges as they compete with global competitors on innovation, efficiency, and regulation.

Theories

Positive Effects: Increased economic growth, reduced inflation, stable exchange rates, increased foreign exchange reserves, deeper and more liquid financial markets, more effective resource allocation, increased innovation, and diversification, etc., could result from internationalization.

Negative Effects: Consequences of internationalization include increased currency rate volatility, a loss of independence for monetary policy, increased susceptibility to external shocks, increased risks to the financial sector, increased speculative capital flows, increased fiscal pressure, increased inequality, and increased social discontent, among other things.

Some of the possible steps that can be taken to facilitate this process are:

- Improving the diversity and competitiveness of Indian exports, particularly in high-value addition and demand-potential industries like services, IT, pharmaceuticals, engineering, and textiles.
- Improving energy efficiency, renewable energy, and domestic production to lessen reliance on oil imports.
- Enhancing the balance of the current account by increasing savings within the country, drawing in more remittances and foreign direct investment, and reducing the import of gold.
- Improving tax compliance and expenditure management, rationalizing subsidies, expanding the tax base, putting in place fiscal norms and targets, and consolidating the fiscal situation. Deepening the financial sector development, by expanding the financial inclusion and literacy, strengthening the banking system and regulation, developing the bond and derivatives markets, and fostering innovation and competition.
- Establishing the legal and institutional framework by assuring accountability and transparency, improving the dispute resolution and enforcement processes, and harmonizing standards and practices with international norms.

Arguments in favour of internationalisation are:

- It would lessen India's reliance on foreign money for investment and trade, which would protect Indian consumers and businesses from currency rate risk and transaction expenses.
- Since more nations would recognize and hold the rupee as a means of exchange and store of value, it would strengthen India's economic and strategic dominance in the region and beyond.
- It would increase management flexibility for monetary policy and diversify the sources of foreign exchange reserves.
- Because there would be a greater demand for assets denominated in rupees, the depth and liquidity of these assets would improve, promoting the growth of local financial markets and institutions.

Challenges

Domestic Challenges: India must address the institutional and structural flaws limiting its financial stability and economic potential. These include strengthening its governance, combating corruption, cutting public debt, modernizing tax laws, boosting infrastructure, and facilitating corporate transactions, among other things.

External Challenges: India must manage the dangers and uncertainties posed by the world's geopolitical and economic conditions. These include addressing the COVID-19 pandemic, the US-China trade war, the climate change catastrophe, regional tensions, and wars, etc.

Market Challenges: India must get over the barriers and inertia that present in global financial markets and commerce. These include competing with other emerging market currencies that are also seeking internationalization, persuading trading partners and investors to accept and utilize the rupee, adhering to international norms and standards for accountability and transparency, etc.

A comprehensive and coordinated strategy by the government, the RBI, and the corporate sector is needed for the long-term, progressive process of internationalizing the rupee.

- The demand for rupees in foreign markets is restricted by India's small but significant share of global trade and finance; • The country's 80% reliance on oil imports makes it more susceptible to shocks to the price of oil and variations in exchange rates.

- India's ongoing current account deficit, which amounts to roughly 2% of GDP, reflects a fundamental mismatch between savings and investment.
- The government's legitimacy and fiscal space are limited by the large public debt (about 90% of GDP) and substantial fiscal deficit (around 7% of GDP).
- The development and participation of the financial sector in India is hampered by low levels of financial inclusion (approximately 80% of adults have bank accounts) and literacy (about 24% of persons are financially literate)

Theoretical Framework

The theoretical framework for understanding how the internationalization of the Indian Rupee contributes to the growth of the Indian economy involves several key concepts and perspectives. This framework is constructed based on the synthesis of findings from various sources such as news, articles, magazines, and relevant economic literature. The primary elements of this framework include the benefits of internationalization, the prerequisites for a currency to become international, the implications for economic growth, and the challenges and mitigating strategies. Additionally, the framework incorporates the context of trade liberalization and its relationship to economic development. The framework is organized as follows:

Benefits of the Internationalization of Rupee

An international currency is one that is kept and used outside of the borders of the nation that issued it. It is significant to note that this includes transactions between non-residents as well as transactions with citizens of the originating nation. Put otherwise, an international currency is one that is utilized in place of the national currencies of the parties that are directly involved in an international transaction, regardless of whether financial assets, goods, or services are being purchased. Theoretically speaking, an international currency ought to serve as a store of value, a unit of account, and a medium of exchange both inside and outside the borders of the nation that issues it. It promotes economic growth by:

- **Lowering of Transaction Costs:** The Rupee's internationalization can minimize the need for currency conversion, which will save transaction costs for companies and individuals engaging in cross-border commerce. This could increase the allure of doing business in India for foreign investors and boost the competitiveness of Indian products on international markets.
- **Greater Degree of Price Transparency:** There may be more price transparency when the Rupee is often used in foreign exchange operations. This can help Indian companies better grasp the dynamics of the global market and modify their pricing strategy accordingly.
- **Quick Settlement Time:** The Rupee's internationalization can expedite and improve the efficiency of international transaction settlement timeframes. This can help Indian companies by cutting down on the expenses and time involved in making cross-border payments.
- **Promoting International Trade:** An internationalized Rupee can facilitate international trade by lowering transaction costs and simplifying commercial transactions between Indian companies and their international counterparts. Increased exports and national economic growth may result from this.
- **Reduction in Hedging Expenses:** There may be less needed to hedge against currency swings if the Rupee gains acceptance and usage in global commerce. For investors and companies alike, this may result in cost reductions.
- **Reduced Cost of Holding Foreign Reserve by the RBI:** The Reserve Bank of India's (RBI) cost of maintaining foreign reserves may be lower with an internationalized Rupee. The Reserve Bank of India (RBI) may not need to keep as much foreign currency to carry out its operations, which would save costs, if the Rupee is widely accepted and used in international transactions.

Internationalization of National Currency: Key Conditions

According to Kenen (2011), a national currency must meet specific requirements that represent both foreign acceptance and political policies to be deemed international. First, the government must remove all barriers to domestic and foreign businesses purchasing or selling the nation's currency on spot or forward markets. This does not require that all prohibitions on domestic entities holding foreign currency assets be removed, even though it does require flexibility for foreign exchange trading. Therefore, given restrictions based on goods, market strength, and international conventions, both domestic and foreign businesses must be able to invoice exports in their own currency.

1. Foreign Acceptance and Reserve Currency Status

The country's currency and financial instruments must be held by individuals, financial institutions, and foreign entities for it to be recognized as a reserve currency. This is the third requirement. However, as evidenced by the makeup of official reserves in the middle of 2008, this role is frequently restricted to a small number of currencies. Additionally, with regulatory oversight to prevent prejudice, foreign businesses and financial institutions should be authorized to issue marketable instruments in the national currency both locally and abroad. This issue may take place in the home market of the nation, subject to local regulations, or in international markets, according to the relevant legislation.

2. Global Participation and Financial Operations

The ability of the financial and non-financial entities of the issuing nation to issue instruments in their own currency on overseas markets is emphasized in the fifth requirement. By issuing debt instruments in a nation's market and utilizing its currency into their financial operations, international financial institutions—such as the World Bank—contribute to internationalization. Even while the nation may not directly gain from this, domestic financial institutions will have easier access to highly rated securities as a result.

3. Inclusion in Currency Baskets

The last need is that the currency must be included in other nations' "currency baskets" to affect their exchange rate policies. Nevertheless, non-international currencies might also be included in these baskets, therefore this criterion is not limited to international currencies. All things considered; these circumstances work in concert to facilitate the complex process via which a domestic currency becomes global.

Challenges and Considerations

Although there are many opportunities associated with internationalizing the rupee, there are also several obstacles that must be overcome. The possibility of excessive fluctuations in currency rates is one of these difficulties. Exchange rate fluctuations can influence trade flows, foreign investor sentiment, and market confidence. Thus, to guarantee a stable and appealing currency, it is necessary to control and lessen this volatility.

Other factors in the internationalization process are currency convertibility and liquidity management. Its broader adoption depends on the rupee's easy convertibility for foreign exchange transactions. Furthermore, to sustain global trade and investment operations, seamless transactions and enough liquidity in offshore rupee markets are essential.

It is imperative to examine the possible effects of internationalization on the financial markets and economy of India. Even though there may be financial gains from the process, it is crucial to assess any risks and create effective risk management plans. Financial stability, monetary policy frameworks, and domestic industry effects should all be included in this assessment.

Trade Liberalization

Trade liberalization is a key economic tactic intended to promote global economic growth, development, and poverty reduction. It is described as the elimination or decrease of barriers to the free movement of products between nations. Global trade has increased at an average annual pace of 6% over the last 20 years, surpassing global output and acting as a driving force behind economic development.

First, let's become familiar with free trade, which is the fundamental concept that underlies the relationship between trade liberalization and economic growth. The idea of "comparative advantage," which holds that nations should create and export things they can produce more efficiently and import goods that other nations can produce more efficiently, is the foundation of free trade. This reasoning suggests that free trade boosts overall global efficiency, which spurs economic expansion. In an economic model, the notion of comparative advantage is expressed mathematically as follows:

{Output of Good X}
{Output of Good Y}

The theory of comparative advantage, which promotes that nations specialize in manufacturing items they can manufacture efficiently and import those produced more efficiently by other nations, is the fundamental idea behind trade liberalization. The elimination of trade obstacles, tariffs, and other limitations promotes free trade, which in turn boosts overall global efficiency and eventually spurs economic growth.

Trade liberalization has several advantages. The success of nations like those in East Asia, where trade opening has been crucial in raising living standards, demonstrates the necessity of opening economies to trade and investment. Economic success depends on policies that promote an open economy, and data indicates that no nation has raised living standards significantly without being open to the outside world.

Developing nations that support trade liberalization frequently achieve a competitive edge in particular industries, which lowers poverty and boosts the economy. Open economies, such as Vietnam, Uganda, and India, have lowered poverty and accelerated economic growth. Additionally, the procedure immediately helps the impoverished by generating new opportunities for unskilled laborers and lifting them into the middle class.

Estimates of the potential gains from removing the remaining trade obstacles range from US$250 billion to US$680 billion annually. Due to their greater levels of protection and current trade obstacles, developing nations—especially low-income ones-stand to benefit proportionately more than industrialized countries, which would get roughly two-thirds of these advantages.

Liberalization of agricultural markets is an important part of trade liberalization, particularly for industrialized nations. Liberalization in manufacturing and agriculture will benefit developing nations greatly. Since 1990, there has been a decrease in national inequality because of the global liberalization trend. This is partly because trade liberalization has allowed developing countries to experience faster economic growth.

3. Research Methodology

This study uses a thorough methodology to examine the dynamic process of internationalizing the Indian Rupee, with a primary focus on the implications for economic growth, trade balances, foreign exchange reserves, and macroeconomic stability overall. The study also aims to uncover steps taken, challenges faced, and envisioned advantages.

A mixed-methods approach is used in the research design, combining qualitative and quantitative analysis. The qualitative component includes a thorough literature analysis that provides information about historical backgrounds, the situation today, benefits, obstacles, and suggested policies. The quantitative aspect examines economic indicators and currency values through data-driven insights and statistical analysis.

A comprehensive assessment of academic publications such as Kumar, Shekhar Hari & Patnaik, Ila, 2018, official records from RBI, and studies from some famous newspaper such as THE HINDU, ECONOMICS TIMES, FORBESINDIA, etc. pertaining to the Indian Rupee's internationalization is one of the ways used to collect data. Secondary data from government publications like RBI, reports from RBI, and other sources is added to the primary data.

Thematic analysis is one of the analytical approaches used to uncover important themes, theories, and arguments surrounding Rupee internationalization in qualitative data. The statistical study of quantitative data, which includes trend analysis, correlation studies, and regression models, helps to clarify the connections between economic variables and currency internationalization.
Purposive sampling is used in the sampling strategy, with an emphasis on data and literature pertinent to the Indian Rupee's internationalization process. Academic papers, official reports, and reliable economic databases are important sources. Relevance, credibility, and recentness are prioritized in the inclusion criteria.

The selection choices employed for these sources were predicated on their pertinence to the research aims, encompassing the examination of the Rupee's internationalization process, comprehending its consequences for economic expansion, and investigating policy suggestions. The Indian Rupee was the primary emphasis of the selection of sources, which were made based on their authority, credibility, and depth of analysis surrounding currency internationalization. Recent articles were prioritized to guarantee that the information and insights included were current.

Current Status

The Indian Rupee is currently facing several obstacles in its internationalization process, which is reflected in its low level of demand worldwide. The rupee's daily average share in the global foreign exchange market is roughly 1.6%, which is significantly less than India's proportion of the world's goods trade, which is approximately 2%. This discrepancy highlights the current disconnect between the extent of India's global economic engagement and the Rupee's international visibility.

The Indian rupee is currently not convertible and cannot be freely bought or sold on international markets. Trading in the rupee speculatively without matching transactions in commodities or services is illegal in India. The trade of assets denominated in rupees is determined by policies that control the acquisition of such assets by non-residents. Nonetheless, dealing in assets denominated in rupees outside of India is still uncontrollable by the government. Although there are limits and ceilings on external commercial borrowing, foreign direct investment is welcomed. With a measured approach to capital account liberalization, India has taken its time moving toward complete capital account convertibility.

Growth of Offshore Markets and Foreign Exchange

India's foreign exchange market has grown significantly despite constraints. The domestic foreign currency market's daily turnover jumped to $50 billion, with spot transactions hitting $24.5 billion, according to the BIS Triennial Survey 2022. From 0.2% in 2001 to 2% in 2022, the rupee's share of the global foreign exchange market turnover increased by over ten times. Rapid turnover in offshore non-deliverable markets, where rupee trading takes place outside of India, suggests that in.

Lessons and Prospects

When it comes to internationalization, India's currency trails behind other major currencies. Governments hardly ever use the rupee as a reserve currency because most trade is invoiced in dollars and euros. As per the latest Triennial Central Bank Survey, with 88% of all forex turnover, the dollar leads the field, followed by the yen, pound sterling, and the euro. Just 2% of the value is made up of the rupee, which emphasizes the need for more internationalization. There may not be many incentives for India to quickly internationalize the rupee given the country's continuing negative net international investment position.

Pursuit of Internationalization

In terms of foreign exchange turnover, India comes in about twenty places, but it is well-known in the non-deliverable forwards markets. In spite of this, the dollar continues to be the world's major reserve currency. With only a little amount of rupee held by other nations, dollars and euros make up the majority of India's foreign exchange reserves. It is not urgently necessary to internationalize the rupee given these considerations. Rather, it is believed that steady advancement of the financial system and expansion of the economy are necessary for its progressive globalization.

Economic Impact

Trade Dynamics

India's trade statistics show a gradual increase in both imports and exports over time. India's proportion of global merchandise imports and exports is still tiny, even with recent rise. India's contribution of global merchandise exports is a mere 2.2%, notwithstanding its 14th-place ranking. In a similar vein, India makes up 3.4% of all merchandise imports worldwide and is the seventh-largest importer. India does better in commercial services, coming in at number nine in imports and fifth in exports. These figures highlight the necessity of increasing exports in order to close the current account deficit and take advantage of India's unrealized trade potential.

Foreign Exchange Turnover

At just 0.5%, or USD 53 billion, India's share of the worldwide OTC foreign exchange trade is still very small. Even less of the global FX turnover is attributed to the rupee, underscoring the need for enhanced infrastructure and deeper financial markets. To boost investor trust and encourage cross-border transactions denominated in rupees, more work needs to be done.

Financial Transactions and Convertibility

India continues to engage in relatively small international financial transactions while working to liberalize capital accounts. Although rupee-denominated bonds can be traded on Masala Bonds, the Indian bond market needs more vigour and liquidity. Rupee internationalization is hindered by the gradual shift towards complete capital account convertibility, underscoring the need for gradual liberalization to promote trust and transactions.

Forex Reserves

As of February 9, 2024, India's forex reserves stood at $617,230 million, according to the Reserve Bank of India and maintains stability and increases confidence in the economy. However, the rupee's status as a reserve currency is hampered by its reliance on dollar transactions. India needs to concentrate on boosting commerce, developing financial markets, and taking careful measures toward complete convertibility in order to increase public confidence in the currency.

The Indian Rupee's globalization has profound effects on the country's economy, including lower import prices, stronger economic ties, and unique benefits for the public and private sectors.

- **Effect on Costs of Imports:** The possible globalization of the Rupee and its subsequent strengthening could have a significant impact on import prices. Import prices could drop because of a strong Rupee, especially from nations like China and Russia. This change in the dynamics of currencies could lead to a reshaping of trade balances and increase India's competitiveness in international commerce.
- **Enhanced Economic Relations:** The globalization of the Rupee is closely linked to India's economic development. Significant progress in the last few decades has accelerated India's economic integration with the world economy, particularly in terms of trade and capital flows. The remarkable increase in India's foreign exchange reserves from August 2012 of USD 290.5 billion to August 2022 of USD 560.4 billion is indicative of the changing environment. At the same time, imports increased from 489.3 billion to 612.6 billion, exports increased from 306.0 billion to 421.9 billion, and foreign direct investment (FDI) increased from 46.6 billion to 84.8 billion. Given this trajectory, which reflects India's expanding economic might on the global stage, the Rupee could eventually become an international currency.
- **For Private Sector:** The internationalization of the Rupee will be highly beneficial to the private sector. The advantages are numerous and include reduced exchange rate risks for regional importers and exporters. Domestic businesses can create a more secure trading environment by shifting exchange rate risks to their foreign rivals by transacting in their local currency. Additionally, internationalization opens new revenue streams for domestic financial institutions by providing access to international financial markets without requiring them to assume exchange rate risk. Furthermore, lower operating expenses encourage investors and exporters, promoting economic expansion and supporting India's "atmanirbhar Bharat" initiative.
- **For Government:** The government can finance budget shortfalls by issuing local currency debt in foreign markets, which is one of the strategic advantages of currency internationalization. This strategy reduces dependency on foreign exchange instruments. The Current Account Deficit (CAD) can be funded more easily by utilizing foreign private capital inflows. External vulnerability management is improved by the decreased requirement for keeping sizable foreign exchange reserves in foreign currencies. Moreover, the Rupee's internationalisation strengthens the country's capacity to repay foreign sovereign debt by mitigating the effects of sudden changes in capital flows. The growing global relevance of the Rupee gives Indian enterprises more negotiating leverage, which enhances the country's economic clout and prestige.

Policy Measures

A report by an Inter-Departmental Group (IDG) of the Reserve Bank of India (RBI) provides brief about few policy initiatives that have been put in place by the Indian government and Reserve Bank of India (RBI) to support the internationalization of the rupee. These actions, which cover short-, medium-, and long-term plans, are intended to improve the rupee's acceptability, convertibility, and appeal in international commerce and finance.

Short-Term Measures:

Standardized Approaches and Rupee Accounts: An important short-term strategy is to implement a consistent procedure for evaluating trade proposals that use rupees and local currencies. For companies doing cross-border commerce, this lessens uncertainty. Furthermore, promoting the opening of rupee accounts for non-residents facilitates easy transactions and instant liquidity.

Integration of Payment Systems: For cross-border transactions to go smoothly, Indian payment systems must be integrated with those of other nations. This lowers transaction costs and improves efficiency. By strengthening the financial market and drawing in international investors, the creation of a worldwide 24x5 rupee market and the recalibration of the foreign portfolio investor (FPI) regime give momentum to short-term objectives.

Medium-Term Measures:

Tax Review and RTGS Promotion: Reviewing masala bond taxes and encouraging the global use of Real-Time Gross Settlement (RTGS) for cross-border commercial transactions are the medium-term goals. In addition to addressing tax-related issues, this improves the technology foundation for smooth transactions. Moreover, the inclusion of Indian government bonds in international indices raises the allure of assets denominated in rupees.

Long-Term Measures:

IMF's Special Drawing Rights (SDR) Inclusion: A long-term tactic would be to push for the rupee to be included in the Special Drawing Rights (SDR) of the International Monetary Fund (IMF). This action raises the rupee's demand and status internationally and is a big step toward making it a worldwide reserve currency.

Evaluation of Policy Measures:

Positive Outcomes: Positive results from the policy initiatives may be seen in the stronger connections that the Indian economy has with the international market. The success of these measures is demonstrated by rising foreign exchange reserves, increased FDI, and rising trade volumes. The introduction of a worldwide 24x5 rupee market and actions to improve the Foreign Exchange Policy and Investment (FPI) framework have made Indian financial instruments more appealing and liquid.

Challenges and Adjustments: But there are still difficulties, particularly in getting the rupee fully convertible and widely accepted. Important changes include addressing institutional and structural flaws, strengthening financial restraint, and facilitating corporate transactions. Accelerating the medium-term aims could also involve progressively integrating payment systems with other nations and improving tax regimes for masala bonds.

Geopolitical Context: India's strategic goal is evident in the recent requests to use the rupee for commercial transactions during global tensions, given the geopolitical ramifications. The policy framework needs to be flexible enough to adapt to changing geopolitical circumstances while also being resilient to outside shocks and uncertainties.

Challenges and Future Prospects

Challenges Hindering Rupee Internationalization

1. **Attaining Sufficient Scale:** The necessity to achieve adequate scale makes India's efforts to internationalize the rupee extremely difficult. Now, the nation's nominal GDP and volume of international transactions trail behind large economies. A consistent 7–8% annual rate of economic growth is necessary to get beyond this obstacle. But because this expansion is closely linked to macroeconomic principles, internationalization objectives and more general economic factors must be carefully balanced.
2. **Stability of the Rupee:** One of the main pillars supporting the rupee's internationalization is its steadiness. There are still issues, such as the current high rate of inflation and an overworked financial sector, despite important changes like the Monetary Policy Framework Agreement. The democratic government of India provides a solid basis for political stability. Maintaining fiscal restraint and enhancing the efficacy of monetary policy are essential for supporting the stability of the rupee internationally.
3. **Ensuring Liquidity of the Rupee:** An essential component of rupee internationalization is liquidity, which calls for a healthy corporate bond market, many bonds denominated in local currency, and strong choices for hedging against currency risk. India is now constrained in several areas, with its corporate bond market lacking depth. To draw in foreign investors, improve market liquidity, and guarantee the rupee's acceptance around the world, capital constraints must be loosened.

Recommendations and Opportunities

1. **Controlled Internationalization:** In times of crisis, the Reserve Bank of India (RBI) stresses the need for borrowing in local currency and supports a regulated internationalization strategy. By shifting currency risks to lenders, this tactic gives the Indian economy a safer alternative. It is advised to loosen limits on cross-border capital flows to promote gradual internationalization while preserving economic stability.
2. **Leveraging Democratic Stability:** Foreign investors feel confident in India because of its democratic system, which is characterized by checks and balances. Taking advantage of this stability during the internationalization process can be a tactical benefit. The rupee will gain worldwide legitimacy if democratic institutions are strengthened, policymaking is made transparent, and globalization initiatives are in line with democratic principles.
3. **Fostering Financial Market Development:** India's financial markets need to be developed in a deliberate manner to address liquidity issues. This entails stimulating the issuance of bonds denominated in local currency, fostering a thriving corporate bond market, and eventually opening the capital account. The enhancement of market depth, liquidity, and risk management tools is contingent upon the RBI and regulatory bodies working together to make the rupee a desirable international currency.

Opportunities, Risks, and Recommendations

1. **Learning from China's Experience:** India may learn from China's methodical approach to internationalizing its currency. India's international profile can be improved by imitating tactics like leveraging current commercial relationships and progressively increasing the use of rupees. A customized strategy that is in line with the state of the economy guarantees a strong and long-lasting route to rupee internationalization. (Internationalising the rupee without the ‘coin tossing’)
2. **Specific Reforms for Rupee Internationalization:** To speed up the process, India can pursue specific reforms like increasing the rupee's convertibility, developing a more robust bond market, enticing exporters and importers to conduct business in rupees, signing more currency swap agreements, providing tax breaks, and guaranteeing stable currency management. When taken as a whole, these measures solve liquidity issues, increase market confidence, and improve the rupee's appeal internationally.
3. **Addressing Macroeconomic Fundamentals:** India needs to concentrate on strengthening its macroeconomic foundations to overcome obstacles to achieving adequate

Paper ID: SR24329232545 DOI: https://dx.doi.org/10.21275/SR24329232545

scale. It is crucial to have steady economic growth, increases in the percentage of global trade, and currency diversification in invoices. A stronger economic base will result from enforcing budgetary restraint, lowering inflation, and dealing with non-performing assets in the banking industry.

4. **Ensuring Liquidity and Market Depth:** To solve liquidity issues, it is imperative that the establishment of a deep and liquid corporate bond market be given top priority. Reducing capital restrictions will be essential to drawing in foreign money, deepening the market, and maintaining the rupee's liquidity.

Way Forward

- The Rupee must be made more convertible, with complete convertibility anticipated by 2060. This will increase the rupee's liquidity and appeal by making it simple for foreign investors to acquire and sell.
- Indian importers and exporters should be encouraged to invoice their transactions in rupees. The RBI should work to create a more robust and liquid rupee bond market.
- More currency exchange arrangements, like the one with Sri Lanka, would enable India to conclude trade and investment deals in rupees.
- Tax breaks for international companies using the rupee in their operations in India.
- To guarantee currency management, the RBI and the Ministry of Finance are required.
- Stability and enhance the system of currency rates.
- It is best to prevent further devaluation or demonetisation.
- It is possible to advocate for the rupee's official status as a currency in international organizations, which would increase its acceptability and raise its prominence.
- It is necessary to follow the recommendations made by the Tarapore Committees in 1997 and 2006, particularly the push to minimize fiscal deficits below 3.5%.
- A drop in gross banks non-performing assets to less than 5%; o A reduction in the gross inflation rate to 3%–5%.

4. Conclusion

The exploration of the internationalization of the Indian Rupee has unveiled critical insights into its potential impact on the growth trajectory of the Indian economy. Key findings underscore the multifaceted role of rupee internalization in fostering economic development, risk mitigation, and enhancing India's position in the global economic landscape.

Key Findings and Implications:

The research elucidates that successful rupee internationalization serves as a catalyst for economic growth by providing Indian businesses with a hedge against currency risks and reducing dependency on foreign currencies. This newfound resilience, coupled with increased global acceptance of the rupee, creates avenues for bolstering international trade, attracting foreign investments, and contributing to a more favorable balance of payments. The stabilizing effect on the rupee ensures a conducive environment for both domestic and foreign investors, fostering confidence and catalysing economic expansion.

Moreover, the implications of a robust corporate bond market and liquidity in local currency further reinforce the potential benefits of rupee internationalization. A thriving financial market, characterized by deep liquidity and diverse hedging options, not only attracts foreign investors but also facilitates the efficient allocation of capital within the Indian economy. The democratic stability of India is identified as a strategic advantage, and leveraging this stability becomes paramount in the internationalization process, instilling confidence in global investors and paving the way for sustained economic growth.

Policy Recommendations and Future Research:

To translate these findings into actionable strategies, policymakers are urged to consider several key recommendations. First, a phased approach to internationalization, as supported by the Reserve Bank of India (RBI), can be instrumental in managing currency risks while gradually expanding the global acceptance of the rupee. Loosening limits on cross-border capital flows should be pursued cautiously to strike a balance between internationalization objectives and economic stability.

Future research endeavours should focus on refining the understanding of specific policy measures for rupee internationalization. Detailed exploration of strategies to enhance the depth and liquidity of the corporate bond market, along with the implications of complete rupee convertibility, would provide a more comprehensive framework for policymakers. Additionally, research on the role of regulatory adjustments and collaborative efforts between the RBI and the Ministry of Finance in ensuring currency stability will be pivotal.

In summary, internalizing the Indian Rupee is a smart move that will help ensure long-term economic growth in addition to mitigating currency risk. To ensure that policy decisions are well-informed, and that future research helps to successfully integrate the rupee into the global economic landscape, supporting the overall growth and stability of the Indian economy, policymakers and researchers must work together to further refine these findings.

References

1] https://www.thehindu.com/business/economy/internationalisation-of-rupee-poses-challenge-of-excess-exchange-rate-volatility-says-rbi-group/article67046102.ece
2] https://icmai.in/upload/BI/Foreign_Exchange_0512_23.pdf
3] https://pointias443387146.wordpress.com/2023/07/24/internationalisation-of-the-rupee-opportunities-challenges-and-the-road-ahead/
4] https://samvadaworld.com/featured/internationalization-of-the-indian-rupee-opportunities-and-challenges/
5] https://iasaarthi.com/crispy-mains/current-affairs/indian-rupee-internationalisation-history-challenges-way-forward/

6] https://cfo.economictimes.indiatimes.com/news/policy/rbi-panel-makes-recommendations-for-internationalisation-of-rupee-suggests-short-term-long-term-measures/101533270
7] https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=1244
8] https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1331
9] https://www.bis.org/repofficepubl/arpresearch200903.10.pdf
10] https://nickledanddimed.com/2023/09/30/rethinking-the-rupee-internationalisation-of-the-indian-currency/
11] https://macrofinance.nipfp.org.in/PDF/PatnaikKumar-internationalisation_of_the_rupee.pdf
12] https://intueriglobal.com/internationalization-of-indian-rupee-rbis-major-move-to-settle-worldwide-transactions-in-indian-rupee/
13] https://www.forbesindia.com/article/explainers/indian-forex-reserves/87581/1
14] https://www.nibmindia.org/static/working_paper/NIBM_WP32_GS.pdf
15] https://www.theindiaforum.in/rupee-international-currency