Internationalization of ₹

- What? → Process of using ₹ in cross-border transactions

Must mention these steps

- steps → current Acc. transactions → capital Acc. transactions → Access to ₹ for non-residents to transact

- Advantages
  - → Immunity from BoP crises (pay external debt in ₹)
  - → Better bargaining power in financial institutions, markets & policies of global economy
  - → Better bargaining power of domestic companies (eg. cheaper loans)
  - → No currency risk to businesses → cost of doing business↓ ⇒ competitiveness↑
  - → Seigniorage income to RBI
  - → ↓ forex needed, less dependence on $ ⇒ less vulnerable to external shocks ⇒ ₹ appreciates (less $ demand)

- Challenges
  - → size of economy ↓, share in world GDP↓ (<4%)
  - → share of world's export↓ (goods export just 1.8% in FY24 → ES)
  - → Needs globally dominant military & businesses to evoke trust in ₹
  - → Needs full convertibility of ₹ (current + cap.) ⇒ macroeconomic stability
  - → Triffin's dilemma
    - → conflict b/w domestic monetary policy & Intl. obligation to supply ₹
    - → Need to run trade deficits to supply ₹ to the world
    - → Domestic inflation vs global ₹ demand

Integration of Indian payment archi in foreign countries (eg. UPI in Singapore, France etc.)

Also write abt Project Nexus (developed by Innovation Hub of BIS) to enable seamless cross-border payments by integrating domestic instant payment systems. To be op. by 2026. RBI is a founding member & aims to integrate UPI

Bilateral swap agreements (eg - Japan, SL, Bhutan)

Masala bonds (₹ denominated)

- Steps taken → SAARC currency swap Framework

$250M set for swap of domestic currency of members against INR, renewed for 2024-27, also $2B set for swapping with $/Euro

RBI's strategic plan for intl. ₹ for 2024-25
→ Opening ₹ Acc. outside India
→ Liberalizing ECB
→ enabling foreign investment thru spl. Acc.s
  - Spl. Non-Resident ₹ (SNRR) ↓ Allows foreign residents to conduct business in India in ₹
  - Spl. ₹ Vostro Acc. (SRVA) ↓ Vostro is foreign bank's Acc. in domestic bank in domestic currency (₹) तेरा

Also, FCNR Acc. पैसा रखते हैं

- Conclusion
→ Intl. of currency = expression of external credibility in domestic currency & eco
→ Ambitious goal to have ⇒ dedollarization, link dollar
→ Tread with caution ⇒ macroeconomic stability

write this conclusion to get 1 more mark than full mark for the Q

RBI outlined a strategic roadmap for its 100th year in 2034, aiming to enhance India's:
- Global economic footprint
- Deepen financial inclusion
- Internationalize the rupee

Perspectives on Current & Capital Account Convertibility

Definitions:

- In both definitions, include ability to convert currencies with freely convertible currencies **at market exchange rate**.

Also write "Permissibility to convert" rather than ability

Current Account Convertibility:

- India has operationalised since 1994

Capital Account Convertibility:

Advantages:

1. Attracts foreign investment since investor can take out money at will => growth and employment opportunities

   Write like this: convertibility lends liquidity to a currency => attractive asset to investors

2. Cheaper foreign capital for govt. & businesses => less competition for domestic sources

3. Banks and Financial institutions can get cheaper foreign money and expand operations abroad. eg. Export credit => trade & inv. boost

Disadvantages:

1. Hot money + volatile capital vulnerable to flight

   official term, define it & use it

2. Exchange rate risk => capital capital => Rupee ↓ => imports dearer

3. Financial instability due to capital flight (banks etc.)

4. **Impossible Trilemma: Impossible to achieve fixed (read as stable) exchange rate, free movement of capital & monetary policy autonomy at the same time.**

If you have to explain it, understand monetary policy autonomy as ability to control inflation using interest rates

Conclusion on Capital Acc. convertibility:

- Rupee will move to full capital account convertibility as per SS **Tarapore Committee (1997)** Recomm. with necessary safeguards once the macroeconomic parameters like CAD, fiscal deficit, external debt, inflation become stable at low range and there is resilience to absorb shocks related to capital outflows.

- Since capital convertibility is risky and makes foreign exchange rate more volatile, it is introduced when exchange rate of currency of a country is relatively stable, deficit in BoP is well under control & enough foreign exchange reserves are available with Central Bank.

- Moving in the direction of allowing full capital account convertibility, in 2020 RBI introduced 'Fully Accessible Route (FAR)' under which it removed the cap/ceiling and allowed full non-resident (foreign) investors investments in Government securities.

- LRS is a method that ensures partial Capital Acc. convertibility.

The amount is substantial for INDIVIDUALS as of now, could be revised upwards