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**INTERNATIONALISATION OF THE  
INDIAN RUPEE: A GRADUAL &  
STRATEGIC SHIFT**

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## INTERNATIONALISATION OF THE INDIAN RUPEE: A GRADUAL & STRATEGIC SHIFT

### Context

- The **RBI Bulletin** has begun publishing data on invoicing and settlement of India's exports and imports in rupees since January 2026, marking an important step in the long-term process of rupee internationalisation.

### About the Rupee Internationalisation

- **Rupee internationalisation** refers to the **increasing use of the Indian rupee (INR)** in international trade, financial transactions, and as a reserve currency by other countries.
- It means making the rupee:
  - ♦ **Accessible** for cross-border transactions;
  - ♦ **Acceptable** globally for trade and investment;
  - ♦ **Recognised** as a reserve or settlement currency;
- Rupee internationalisation includes:
  - ♦ **Trade Invoicing and Settlement:** Exporters and importers invoice and settle trade in rupees instead of US dollars or other hard currencies.
  - ♦ **Cross-Border Payments:** Use of rupee in international remittances and services payments.
  - ♦ **Financial Market Participation:** Foreign investors buying Indian bonds and assets in rupees; Offshore rupee markets.
  - ♦ **Reserve Currency Status (Long-Term Goal):** Other central banks holding rupee as part of their foreign exchange reserves.
- It does **not automatically mean full capital account convertibility**, however, it is a gradual process where trade transactions are prioritised before full capital flows are liberalised.

### Global Context

- The push for alternatives to the US dollar gained momentum after the Russia-Ukraine **War (2022)** in which the US froze Russia's dollar assets.
  - ♦ Russia was barred from **SWIFT (Society for Worldwide Interbank Financial Telecommunication)**.
  - ♦ Access to the dollar-dominated payment system was restricted.
- It highlighted **vulnerabilities associated with over-dependence** on the dollar-centric global financial architecture.
- Several countries, including India, began exploring alternatives.

### RBI's Roadmap for Rupee Internationalisation

- In July 2023, an **Inter-Departmental Group (IDG)** submitted the **first official roadmap** for rupee internationalisation.
- **Key Features of the Roadmap** include 10 short-term milestones; 5 medium-term milestones; and 1 long-term milestone.
- India's Prime Minister, in 2024, emphasized that the rupee should be '**accessible and acceptable throughout the world**', giving policy direction to this effort.

### Local Currency Arrangements (LCAs)

- These are the agreements between central banks to settle trade in local currencies instead of hard currencies like the US dollar.
- **Countries with MoUs (since July 2023):** UAE, Indonesia, Maldives, Mauritius, and more under discussion.
- **Operational Mechanism:** Trade payments routed via **Special Rupee Vostro Accounts (SRVA)**.
  - ♦ 83 banks from 35 countries have opened SRVAs with Indian banks.

- **Benefits:**
  - ◆ Reduces exchange rate risk for exporters.
  - ◆ Reduces dependence on hard currencies.
  - ◆ Enhances financial sovereignty.

### Key Concerns & Issues Around Rupee Internationalisation

- **Exchange Rate Volatility:** Greater cross-border use of the rupee may increase speculative flows.
  - ◆ Higher demand and supply fluctuations in offshore markets could make the rupee more volatile.
  - ◆ Volatility can affect trade competitiveness and inflation.
- **Pressure on Foreign Exchange Reserves:** If global investors rapidly convert rupee holdings into foreign currency during crises, it may strain forex reserves.
  - ◆ The RBI may need to intervene more frequently in currency markets.
- **Monetary Policy Autonomy:** Greater integration with global financial markets may reduce policy flexibility.
  - ◆ Large foreign holdings of rupee assets can constrain interest rate decisions.
  - ◆ Spillover effects from global monetary tightening.
  - ◆ **Impossible Trinity:** Monetary independence, exchange rate stability, and capital mobility
- **Underdeveloped Financial Markets:** For a currency to be widely accepted globally, the country needs to have deep and liquid bond markets; free and efficient capital markets; and transparent regulatory systems;
  - ◆ India's markets are improving but are not yet comparable to major reserve currency economies.
- **Capital Account Convertibility Risks:** Full internationalisation often requires capital account liberalisation.
  - ◆ Premature opening can expose the economy to speculative attacks, sudden stops in capital flows, and financial crises (e.g., Asian Financial Crisis 1997).
  - ◆ India currently follows a **calibrated capital account approach**.
- **Limited Global Demand for Rupee:** Around 5% of India's total international trade is currently settled in rupees. For a currency to internationalise, foreign countries need to be willing to hold it as reserves, use it in trade invoicing, and invest in rupee assets.
- **Geopolitical Risks:** De-dollarisation efforts may have geopolitical implications.
  - ◆ Countries using rupee settlement may face diplomatic pressure.
  - ◆ Integration with alternative payment systems (**bypassing SWIFT**) may create tensions.
- **Risk of Offshore Market Distortions:** Offshore rupee markets (like NDF markets) may influence domestic exchange rates.
  - ◆ Divergence between onshore and offshore rates can complicate policy management.
- **SDR and Reserve Currency Challenges:** For the rupee to become part of **IMF's SDR basket**, or included in **CLS (Continuous Linked Settlement)**.
  - ◆ India needs to ensure full convertibility, high liquidity, and stable macroeconomic fundamentals.
  - ◆ These require long-term structural reforms.
- **Trade Imbalance Problem:** Countries accumulating rupees through exports to India must invest those rupees back in India, or use them for buying Indian goods.
  - ◆ If trade is one-sided, rupee accumulation becomes unattractive.

### Way Forward: Enabling Conditions for Rupee Internationalisation

- **Deep and Liquid Financial Markets:** Strong bond and forex markets; and simplified FPI norms.
- **Offshore Rupee Ecosystem:** Rupee banking services allowed through offshore branches.
  - ◆ NRIs are allowed to open rupee accounts abroad.
  - ◆ NRIs in Nepal, Bhutan, and Sri Lanka are permitted to raise rupee loans.

- **Payment System Integration:** To reduce vulnerability to SWIFT exclusion, linking Indian systems such as **RTGS (Real Time Gross Settlement); and SFMS (Structured Financial Messaging System)** with payment systems of other countries is under consideration.
- **Long-Term Aspirations:**
  - ♦ **Inclusion in Continuous Linked Settlement (CLS):** Currently settles 18 major currencies.
  - ♦ **Inclusion in IMF's SDR Basket:** Would require long-term structural reforms.

### Conclusion

- Rupee internationalisation is not an event but a **multi-decade process**. The institutional framework i.e. local currency arrangements, SRVAs, bond index inclusion, and offshore rupee access signals a structural shift, while current trade settlement in rupees is modest.
- As India aspires to become a developed nation by 2047, elevating the rupee to the status of a convertible and reserve currency aligns with broader goals of economic resilience, strategic autonomy, and financial sovereignty.

### Daily Mains Practice Question

**[Q]** Discuss the rationale behind rupee internationalisation. Does it represent a strategic shift in India's external economic policy?

Source: BS

