

## INTERNATIONALISATION OF THE INDIAN RUPEE – ECONOMY

**NEWS: The Reserve Bank of India (RBI) has eased norms for opening Special Rupee Vostro Accounts (SRVAs) to promote rupee-based trade settlements and internationalisation of the Indian Rupee.**

### Recent RBI Step: Removal of Prior Approval Requirement

The Reserve Bank of India (RBI) has recently removed the requirement for Authorised Dealer (AD) banks to seek prior approval from its Foreign Exchange Department, Central Office, Mumbai, before opening Special Rupee Vostro Accounts (SRVAs) for overseas correspondent banks. This change means AD banks can now directly open SRVAs without delays, provided they comply with existing regulatory frameworks.

#### What is the SRVA Mechanism?

The Special Rupee Vostro Account (SRVA) framework, introduced by RBI in July 2022, allows Indian exporters and importers to invoice, settle, and conduct trade directly in Indian Rupees. Under this system, foreign banks can hold rupee balances in accounts maintained with Indian banks (vostro accounts), which are then used for settling bilateral trade transactions. Earlier, banks had to obtain prior permission for each such account, which slowed down operationalisation. Now, the process has been simplified, enabling faster trade settlements in rupees.

#### Adherence to Regulations

Although the prior approval requirement is removed, banks must continue to comply with - Foreign Exchange Management Act (FEMA) provisions, which govern India's foreign exchange transactions. Know Your Customer (KYC) and Anti-Money Laundering (AML) norms, ensuring financial security and preventing illicit flows.

#### Significance of the Step

**Faster Operation** - Removing procedural hurdles enables quicker activation of SRVAs, making rupee-based trade settlements more practical and attractive.

**Boost to Bilateral Trade** - It supports RBI's larger goal of reducing dependence on hard currencies like the US dollar in cross-border trade.

**Global Integration** - Facilitates India's ambition of promoting the rupee as a preferred currency in global trade, particularly with strategic partners like Russia, UAE, and Singapore.

### Internationalisation of the Rupee – Concept

**Definition** - Internationalisation of a currency means its wider use in cross-border transactions, including trade invoicing, investment, and reserves. For the rupee, this would mean more international payments, trade settlements, and reserves being denominated in Indian currency.

**Current Status** - As per BIS 2022, the rupee accounts for only 1.6% of global forex turnover, compared to the US dollar's 88%. The Economic Survey 2023 highlights that to achieve global recognition, the rupee's share must rise to at least 4% of forex turnover, similar to other non-dollar/non-euro currencies.

#### Case Studies – Internationalisation of Other Currencies

##### Chinese Yuan (RMB)

Began in 2009 with cross-border RMB trade settlements to reduce dollar dependence. Expanded via currency swap agreements, offshore hubs, and its inclusion in the IMF's Special Drawing Rights (SDR) basket in 2016 with a 10.92% weight. Its global share in SWIFT payments increased from 2% (2023) to 3.5% (April 2025).

## Japanese Yen

Gained significance during Japan's economic rise in the 1980s. Liberalisation of financial markets and issuance of yen-denominated "Samurai bonds" boosted its international acceptance. Today, the yen is the third-most traded currency globally after the US dollar and euro.

## Why Internationalisation of the Rupee is Needed

1. **Trade Invoicing** - Enhances the use of rupee in cross-border transactions, reducing reliance on third-country currencies like the dollar.
2. **Currency Volatility Protection** - Minimises forex risks for Indian businesses, especially exporters, by stabilising transaction costs.
3. **Strengthening the Rupee** - Higher demand for rupee in international trade would appreciate its value and lower conversion costs.
4. **Forex Reserve Management** - Reduces the need for holding excessive foreign reserves (currently ~\$642 billion as of March 2024), making India less vulnerable to external shocks.
5. **Strategic Bargaining Power** - Greater rupee adoption gives India more influence in international negotiations and financial diplomacy.

## India's Efforts So Far

1. **Policy Push** - Government has directed RBI to make the rupee globally accessible, aligning with India's expected share in global growth rising from 16% to 18% by 2028.
2. **SRVA Expansion** - As of 2024, RBI approved 156 SRVAs for 123 correspondent banks from 30 trading partner countries, enabling trade in rupees.
3. **Milestone Trade Settlements** - India made its first crude oil payment to UAE in rupees, marking a breakthrough in reducing dollar dependence. India also pays for gold imports in rupees, with UAE reusing those rupees for Indian gems and jewellery.
4. **UPI Integration Abroad** - India's UPI is now live in over 7 countries, including UAE, Singapore, and Bhutan, helping expand the rupee's global reach in retail payments.

## Challenges Ahead

1. **Policy Constraints** - Full internationalisation reduces RBI's ability to tightly control money supply and interest rates.
2. **Convertibility Issues** - Rupee is fully convertible on current account but only partially on capital account. Full internationalisation requires near-complete capital account convertibility.
3. **Trade Deficit Concerns** - Example - India's \$57 billion trade deficit with Russia risks leaving Moscow with rupee surpluses, which are difficult to utilise without wider rupee market access.
4. **Geopolitical Risks** - Sanction-related fears discourage Indian banks from facilitating rupee trade with Russia.
5. **Chinese Yuan Edge** - China's 12% global export share vs India's <5% gives yuan a natural advantage. Already, 95% of Russia-China trade is settled in yuan, limiting rupee's appeal.

## Measures in Pipeline

1. **Easing INR Accounts for Non-Residents** - Review of FEMA deposit rules to allow Persons Resident Outside India (PROIs) to open INR accounts abroad and facilitate rupee-denominated lending and investments.
2. **Structured Financial Messaging System (SFMS)** - Extending SFMS as a global payment messaging hub to rival SWIFT and strengthen rupee-based cross-border settlements.

3. **GIFT City Push** – Expanding FCY-INR currency trading pairs in GIFT IFSC to deepen rupee liquidity and international participation.
4. **Other Measures** – Reforms in FEMA regulations, liberalised remittance schemes, inward remittance rationalisation (Money Transfer Service Scheme, Rupee Drawing Arrangement), and global index inclusion of Indian bonds.

## Way Forward

1. **Calibrated Capital Account Convertibility** – Gradual relaxation while ensuring resilience of domestic markets against external shocks.
2. **Global Payment Integration** – Push for rupee inclusion in CLS (Continuous Linked Settlement) for secure forex settlements.
3. **Currency Swap and LCS Mechanisms** – Increase bilateral agreements for stabilising rupee settlements and lowering transaction costs.
4. **IMF SDR Inclusion** – Work towards fulfilling IMF conditions for including rupee in the SDR basket, giving it reserve currency status.
5. **Strengthen Domestic Markets** – Harmonise KYC norms, extend INR market hours to align with offshore markets, and build investor confidence by listing Indian bonds in global indices.

## Vostro vs Nostro Accounts (Quick Recap)

1. Vostro Account – An account Indian banks hold on behalf of a foreign bank in rupees (e.g., Citibank US holds INR with SBI).
2. Nostro Account – An account Indian banks hold with a foreign bank in foreign currency (e.g., SBI holds USD with Citibank US).

## Conclusion

The removal of prior approval for SRVAs represents a key enabler of rupee internationalisation, removing operational delays and encouraging broader adoption of the rupee in global trade. While India has made progress through policy initiatives, bilateral trade settlements, UPI integration, and SRVAs, challenges of convertibility, market depth, and geopolitical competition with the yuan remain. With calibrated reforms, strong institutions, and strategic partnerships, the rupee can gradually transition into a globally recognised trade and reserve currency, enhancing India's financial sovereignty and bargaining power.

Source: <https://www.moneycontrol.com/news/business/rbi-allows-investment-of-surplus-rupee-balances-in-special-vostro-accounts-into-g-secs-t-bills-13445930.html>