# Gently Pushing Rupee

*Steady steps promoting rupee-based foreign trade are pragmatic. Internationalisation follows economic heft*

On July 15, RBI and the Central Bank of UAE signed two MoUs allowing bilateral trade in their respective domestic currencies. To contextualise this development, go back to two other events where RBI, in conjunction with GOI, tried to internationalise the rupee. In July 2022, it authorised banks to enable international trade settlement in rupees. Separately, in February 2023, India and Singapore linked their fast payment systems UPI and PayNow. This linkage allowed transfer from India of up to ₹60,000/day. Its primary benefit is that it allows a significant reduction in transaction costs of remittances.

India is the world's largest recipient of foreign remittances. In 2022, the World Bank estimated that India was the first country set to receive an annual remittance flow of more than $100 billion. RBI's efforts to link its digital payments systems to other central banks provides a boost to remittance flows and the savings in transaction costs benefit recipients. The UAE tie-up, however, is greater in scope and ambition. It aims to promote settlement of all current account trades and permitted capital account transactions in respective domestic currencies. To operationalise it, both central banks have to jointly create a settlement system and develop a rupee-dirham foreign exchange market.

It's a step towards internationalising the rupee and is in keeping with the growing size of India's economy and its share in world trade. These efforts come in the backdrop of the dominance of the US dollar in all aspects of trade and foreign currency reserves. About half the global trade is invoiced in USD, almost 60% of official reserves are held in it and it accounts for almost 90% of global foreign exchange transactions. It makes USD the "vehicle currency" for the global forex market. Typically, about 80% of India's foreign trade is invoiced in USD.

Internationalisation of the rupee requires freer convertibility, deeper and more sophisticated financial markets and a bigger footprint in global trade. Consequently, enabling conditions for the rupee's internationalisation need to be in sync with the larger trade and macroeconomic policy. Without synchronisation, there will be risks to macroeconomic stability. Therefore, RBI's gradual approach is pragmatic as it allows retail transactions at a lower transaction cost. Moreover, wherever possible, rupee settlement of cross-border trades is encouraged. Enhanced internationalisation requires GOI to revisit its restrictive foreign trade and capital account policies.