



## Aspirational Goals of RBI

**For Prelims:** [RBI](#), [Capital Account](#), [INR Internationalisation](#), [Capital Account Convertibility](#), [Non-resident Deposits](#), Indian MNCs and Global Brands, Digital Payment System, [UPI](#), [RTGS](#), [NEFT](#), [Central Bank Digital Currency \(e-Rupee\)](#), [Globalisation](#), [GIFT City](#), [Monetary Policy Framework](#), [Climate Change Initiatives](#), [Rupee Masala Bonds](#)

**For Mains:** Challenges in [Capital Account Liberalisation](#) and [INR Internationalisation](#)

[Source: IE](#)

### Why in News?

Recently, the [Reserve Bank of India \(RBI\)](#) has outlined **several aspirational goals** in preparation for **India's fast-growing economy**, aiming to be "future-ready" by the time it reaches its **centenary year, RBI@100**.

### What are the Aspirational Goals of RBI?

- **Capital Account Liberalisation and INR Internationalisation:**
  - **Capital Account Convertibility:** Proposed **full [capital account convertibility](#)**, allowing free conversion between the rupee and foreign currencies for capital transactions.
  - **Internationalisation of the Rupee:** Enabling **non-residents** to use the rupee for **cross-border transactions** and enhancing rupee account accessibility for persons outside India.
  - **Calibrated Interest-Bearing Non-Resident Deposits:** Adopting a careful approach toward [interest-bearing deposits](#) for non-residents.
  - **Promotion of Indian MNCs and Global Brands:** Supporting overseas investments by Indian multinational corporations.
- **Digital Payment System Universalisation:**
  - **Domestic and Global Expansion:** Expanding the use of India's digital payment systems ([UPI](#), [RTGS](#), [NEFT](#)) domestically and internationally, and linking payment systems with other countries.
    - The starting point can be integrating [Indian payment systems](#) with those of other countries.
  - **Central Bank Digital Currency (e-Rupee):** Phased implementation of the [e-Rupee](#).
- **Globalisation of India's Financial Sector:**
  - **Domestic Banking Expansion:** Aligning banking sector growth with national economic growth.
  - **Top Global Banks:** Aiming to **position 3-5 Indian banks** among the **top 100 global banks** in terms of size and operations and positioning the Reserve Bank as a model central bank of the **global south**.
  - **Support for GIFT City:** Assisting the International Financial Services Centres Authority (IFSCA) in making [GIFT City](#) a leading international financial hub.
- **Monetary Policy Framework Review:**

- **Balancing Act:** Addressing the balance between **price stability and economic growth** from an Emerging Market Economy perspective.
- **Policy Communication:** Refining **monetary policy** communication and addressing spillovers from debt overhang in important economies.
- **Climate Change Initiatives: Providing guidance for stress testing asset portfolios, strengthening payment systems against climate risks, and proposing disclosure norms and a government taxonomy for [climate risks](#).**
- **Short and Medium-Term Measures:**
  - **Trade Arrangements:** Standardizing approaches for **bilateral and multilateral trade invoicing**, settlement, and payment in rupee and local currencies.
  - **Financial Market Strengthening:** Fostering a global rupee market and recalibrating the **foreign portfolio investor regime**.
  - **Rupee Masala Bonds:** Reviewing taxes on rupee **masala bonds**.
  - **Global Bond Indices:** Including Indian Government Bonds in global bond indices.

## Steps Towards Internationalisation of Rupees

- [Developments in the GIFT City](#)
- **Asian Clearing Union (ACU)**, a regional payment arrangement facilitates the **settlement of trade transactions among its member countries** on a multilateral basis. The ACU currently has 13 member countries. **India is a member of ACU.**
- In March 2023, the RBI put in place the mechanism for **rupee trade settlement** with as many as 18 countries.
  - Banks from these countries have been allowed to open **Special Vostro Rupee Accounts (SVRAs)** for settling payments in Indian Rupees.
- In July 2022, the RBI issued a circular on **“International Trade Settlement in Indian Rupees”**.
- RBI enabled **external commercial borrowings** in Rupees as per the (especially Masala Bonds).

## Narasimham Committee

- **Dr Manmohan Singh set up Narasimham Committee in 1991** to analyse India’s banking sector and recommend reforms. It was followed by the 1998 Committee which is known as the **Narasimham Committee II.**
- **Narasimham Committee- I Recommendations:**
  - **A 4-tier hierarchy for the Indian banking system** with 3 or 4 major public sector banks at the top and **rural development banks** for agricultural activities at **the bottom.**
  - A **quasi-autonomous body** under RBI for **supervising banks** and financial institutions.
  - Reduction in **statutory liquidity ratio**
  - Reaching of 8% **capital adequacy ratio**
  - Setting up **Asset Reconstruction fund**
- **Narasimham Committee- II Recommendations:**
  - **Stronger banking system:** The Committee recommended the **merger of major public sector banks** to boost international trade. However, the Committee warned **against merging stronger banks with weaker banks.**
  - **Reform in the role of RBI:** The Committee also recommended reforms in the role of the RBI in the banking sector. The Committee felt that **RBI being the regulator, it should not have ownership in any bank.**
  - **NPAs:** The Committee wanted the banks **to reduce their NPAs to 3% by 2002.** It also recommended the formation of Asset Reconstruction Funds or **Asset Reconstruction Companies.**
  - **Foreign banks:** It also proposed to raise the minimum start-up capital to USD 25 million for foreign banks from USD 10 million.

## Tarapore Committee

- The RBI had appointed the Tarapore committee in 1997. The committee was formed with the objective of progressive liberalisation of capital account transactions.
  - It suggested that **full convertibility should be achieved in three phases** and the process should be subject to fulfilment of certain crucial preconditions and signposts.
  - Prior RBI approval dispensed with for foreign direct and portfolio investment and disinvestments
  - **Banks and FIs allowed to play in local and overseas gold markets**
  - FIIIs, NRIs, non resident banks allowed into the forward exchange markets
  - **Financial institutions** allowed to be full fledged **authorised dealers**.

# INTERNATIONALISATION OF RUPEE

## MEANING

- Increasing the use of Indian rupee in **cross-border transactions**

## INVOLVES

- Rupee for **import and export**
- Rupee for **current and capital account transactions**

Indian Rupee is fully convertible in current account, but partially in capital account (BoP)

## NEED

- Weaponisation of USD by US (for **sanctions**)
- Wave of **de-dollarisation**
- Increasing **internationalisation of Chinese Renminbi**
- India's **minimal share in global forex market turnover (1.7%)**

## RBI'S EFFORTS

- Indian currency in cross-border trade - key component in **Foreign Trade Policy 2023**
- Mechanism introduced for **rupee trade settlement with 18 countries**
  - › Banks from these countries allowed to open **Special Vostro Rupee Accounts (SVRAs)**
- Circular on "International Trade Settlement in Indian Rupees" (2022)
- External **commercial borrowings in INR** enabled

## SIGNIFICANCE

- **Reduced dependency** on USD
- **Lesser need** for holding forex reserves
- **Better bargaining** power of Indian business
- **Less exposure** to currency volatility

## CHALLENGES

- Rupee not fully convertible
- Less need for other countries to hold INR; **India's low share in global exports**
- Rupee may become **more vulnerable to external shocks**
- India's **lesser control on Rupee supply**

## STEPS THAT CAN BE TAKEN

- More **liberalised settlements in INR** (in India and overseas)
- India to **expand its reach** in the global financial market
- Transition to an **export-oriented economy** to **reduce trade deficit**



## What are the Challenges in Achieving the Aspirational Goals of RBI?

- **Triffin Dilemma:** It describes the conflict between a **country's domestic monetary policy** goals and its **role as an international reserve** currency issuer.
  - The **Triffin dilemma** could manifest as a conflict between **maintaining stability in India's domestic economy** and meeting the **global demand for the Rupee**.
- **Exchange Rate Volatility:** **Opening up the currency to international markets** can increase volatility in its **exchange rate**, especially in the initial stages. **Fluctuations can impact trade and investments, affecting economic stability.**



- **Impact on Export:** The Rupee's internationalisation will lead to **increased demand** for the currency in global markets, which **may make Indian exports costly**.
- **Limited International Demand:** The daily average share for the **rupee in the global forex market is only around 1.6%**, while India's share of global goods trade is ~2%. The challenge **lies in increasing share of Indian products** in the competitive global market.
- **Convertibility Concern:** The absence of full convertibility of INR for capital transactions will restrict its widespread use in international trade and finance.
- **Cybersecurity Threats:** Digital payment systems are vulnerable to **cyberattacks**, which can lead to fraud and loss of money. Building trust requires robust security measures to protect user data and ensure the safety of transactions.
- **High Non-Performing Assets (NPAs):** Indian banks, particularly public sector ones, struggle with a high percentage of **non-performing assets** (loans unlikely to be repaid) making them less likely to absorb shock in case of global financial crisis.

## What are the Steps Needed to Reach the Aspirational Goals?

- **Convertible of Rupee:** As per the **recommendation of Tarapore committee**, the goal should **be of full convertibility by 2060**, letting financial investments move freely between India and abroad.
  - This would **allow foreign investors** to easily buy and sell the rupee, enhancing its liquidity and making it more attractive. **Tobin Tax** can be used as a **safeguard measure** by RBI against **currency speculation**.
- **Reforms Suggested by Tarapore Committee:**
  - It had listed several preconditions such as **fiscal consolidation, inflation control, low level of non-performing assets**, low current account deficit and strengthening of financial markets **for achieving capital account liberalisation**.
  - **Strong Fiscal Management:** Such as reducing **fiscal deficits** lower than 3.5%, reducing gross inflation rate to 3%-5%, and reducing gross banking non-performing assets to less than 5%.
  - **Liberalised Scheme for Personal Remittance:** The introduction of a more liberal scheme for **personal remittances** to facilitate easier transactions for individuals dealing with foreign exchange.
- **Pursue a Deeper Bond Market:** Enabling foreign investors and **Indian trade partners to have more investment options** in rupees, enabling its international use apart from developing the corporate bond market in India.
- **Increase Rupee in International Trade:** Optimising the trade settlement formalities for rupee import/export transactions would go a long way. For example rupee swap agreements with various countries, payment of Russian oil in Indian rupee etc.
- **Globalisation of India's Financial Sector:** Encourage **domestic banking expansion** through licensing reforms and incentivise **branch network expansion**. Support Indian banks in enhancing their global presence **through strategic partnerships and acquisitions**.
  - For example, **similar to the support provided to Khanij Bidesh India Ltd** support could be provided to banks for acquisition, merger and collaboration with foreign banking institutions.
- **Monetary Policy Framework Review:** Conduct a comprehensive review of the **monetary policy framework** to ensure it aligns with the goals of price stability and economic growth.
  - Enhance transparency and clarity in monetary policy communication to manage market expectations effectively. For example releasing of meeting minutes.
- **Climate Change Initiatives:** Issue guidelines for stress testing of asset portfolios to assess climate change risks. Work with financial institutions to develop resilience measures against **climate-related risks** in payment systems. Propose disclosure norms for climate risk reporting and contribute to the development of a **standardised government taxonomy**.

### **Drishhti Mains Question:**

Q. Discuss the key challenges faced by the Reserve Bank of India in its efforts to internationalise the Indian rupee. What measures can be taken to overcome these challenges?

## UPSC Civil Services Examination, Previous Year Question (PYQ)

### **Prelims:**

#### **Q. Convertibility of rupee implies (2015)**

- (a) being able to convert rupee notes into gold
- (b) allowing the value of rupee to be fixed by market forces
- (c) freely permitting the conversion of rupee to other currencies and vice versa
- (d) developing an international market for currencies in India

**Ans: (c)**

#### **Q. With reference to Balance of Payments, which of the following constitutes/constitute the Current Account? (2014)**

1. Balance of trade
2. Foreign assets
3. Balance of invisibles
4. Special Drawing Rights

**Select the correct answer using the code given below:**

- (a) 1 only
- (b) 2 and 3
- (c) 1 and 3
- (d) 1, 2 and 4

**Ans: (c)**

### **Mains:**

**Q.** Implementation of Information and Communication Technology (ICT) based Projects/ Programmes usually suffers in terms of certain vital factors. Identify these factors, and suggest measures for their effective implementation. **(2019)**