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ON

Can Indian Rupee challenge Dollar

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Rupees have existed since the beginning of the Indian subcontinent. The earliest known reference to coins in a text is Pini's mention of rupya. In the Indian subcontinent, the phrase was used to describe a coin.Rupyarupa, a silver coin from the Mauryan Empire, features the elephant and wheel as symbols. 3rd millennium BC the Sanskrit word "rupya," which also means "wrought silver" and possibly "something stamped with an image or a coin," is where the word "rupee" originates. Its more specific meaning of "stamped, impressed," which led to the word "coin," is that it means "shapely" as an adjective. Its root is the noun rupa, which means "shape, likeness, or image".

Can Indian Rupee challenge Dollar

For a large portion of the 19th century, the Indian rupee was a silver-based currency, which had a negative impact on the currency's traditional value because stronger economies used the gold standard. The rupee was divided into 16 annas while India was under British rule and for the first ten years after independence. Aanna was split into four pieces each. As a result, one rupee was equivalent to 64 pices (paisas) and 192 pies, with one pice equaling three pies. The decimalization of the rupee into 100 naye paise in Hindi, and Urdu for newly issued paisas occurred in 1957. The initial "naye" was dropped after a while.

Due to the devaluation of the pound sterling, India's currency started to decline in value in 1949. However, because most of India's trade was conducted in pounds sterling, the two significant devaluations of the rupee—in 1966 and 1991, in response to the economic crisis—did not have the same impact on the country's trade.

Can Indian Rupee challenge Dollar

India had ongoing trade deficits from 1950 until the 1960s when they became more significant. In addition, the Indian government had a budget deficit issue and was unable to borrow money from abroad or from the private corporate sector due to the latter's low savings rate. As a result, the government issued bonds to the RBI, increasing the amount of money in circulation and causing inflation. Foreign aid, which had previously played a crucial role in preventing the devaluation of the rupee, was finally cut off in 1966, and India was informed that before foreign aid would return, its trade restrictions needed to be loosened. Devaluation and liberalization were the politically unpopular steps taken in response. In addition, the 1965 Indo-Pakistan War forced the US and other Pakistan-friendly nations to stop providing aid to India, necessitating further devaluation. The highest level of defence spending between 1965 and 1989 occurred in 1965/1966 when it accounted for 24.06 percent of all expenditures. The 1965–1966 drought, which caused a sharp increase in prices, was another factor contributing to devaluation.

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In 1991, India still had a fixed exchange system, where the rupee was pegged to the value of a basket of currencies of major trading partners. India started having balance of payments problems in 1985, and by the end of 1990, it found itself in serious economic trouble. The government was close to default and its foreign exchange reserves had dried up to the point that India could barely finance three weeks' worth of imports. In 1966, India faced high inflation and large government budget deficits. This led the government to devalue the rupee and now it is growing day by dayAt the end of 1999, the Indian Rupee was devalued considerably.

Since gaining independence from Britain in 1947, India has used the rupee as its official currency. In this time period, almost up until the middle of the 1960s, Kuwait, Oman, Bahrain, and the United States all accepted Indian rupees as legal tender.

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India, which was then a member of the sterling area, devalued the rupee by the same percentage on the same day, making the new dollar exchange rate in 1949 equal to Rs 4.76.which is where it remained until the rupee's devaluation in 1966, which caused the dollar to be worth Rs 7.50 and the pound to be worth Rs 21. The rupee began to decline in early 2013 as a result of stalled reforms and falling foreign investment. The government had previously announced measures to stop it from falling any lower, but none succeeded in halting the decline.

Manmohan Singh, the country's then-prime minister, addressed the issue in the Indian Parliament following ongoing depreciation and high inflation. He believed that both domestic and global factors were contributing to the current depreciation. Additionally, he pleaded with the political parties to assist his administration in navigating the nation through the crisis brought on by the rupee's depreciation.

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The rupee and the dollar were never equitable. India's currency was pegged to the pound sterling at the time of independence (in 1947), and the exchange rate was one shilling and six pence to one rupee, or Rs 13.33 to the pound. The dollar-pound exchange rate at the time was $4.03 to the pound, translating to roughly Rs 3.30 rupee per dollar in 1947. In 1949, the parity of the pound was reduced from 4.03 to 2.80.

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Can Indian Rupee challenge Dollar

The US dollar is included in the currency basket of the Special Drawing Rights of the International Monetary Fund, along with the other major currencies of the world: the euro, sterling, Japanese yen, and Chinese renminbi. Globally, central banks hold sizable reserves of US dollars, and they buy a sizable amount of US treasury bills and notes.

Dollarization is the process by which nations tend to lessen their reliance on the US dollar as a reserve currency, medium of exchange, and unit of account. Although it goes without saying that the US dollar has long held a dominating position in the global financial system, the recent shift towards dollarisation constitutes a crucial transformation with important consequences for the future of global commerce, investment, and monetary policy.The necessity for a sound and fair financial system is critical as the world grows increasingly linked. And as a result, there are some degree of vulnerabilities and imbalances in the global economy due to the over reliance on the US dollar as a reserve currency.

Can Indian Rupee challenge Dollar

Many nations are now interested in moving forward with Dedollarisation as a result of these causes, as well as the rising economic influence of developing markets and their need for a more diverse and robust financial infrastructure.

Starting decades earlier, the American dollar has dominated international trade as a reserve currency. The USD is the one currency that is traded the most on the forex market, accounting for around 90% of all transactions. Through the use of economic sanctions, the United States and its allies have benefited from the dollar's hegemony. But did America go too far when it imposed harsh sanctions on Russia during the Russia-Ukraine War.

Global Initiatives for Dollarization.

A number of nations and areas have started down the path of Dedollarisation in recent years, motivated by a mix of geopolitical, economic, and strategic factors.

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China, Russia, Brazil, and the European Union are notable examples of countries that have made steps to lessen their reliance on the US dollar in international trade and financial markets. Some nations, like China and Russia, have worked to lessen the power of the US dollar in an effort to challenge perceived US hegemony and lessen the effects of US sanctions.

According to the government official's post, other nations, especially those in the Eurozone, have promoted Dedollarisation to encourage the use of their currency, the euro, abroad in an effort to improve their global economic status and obtain greater financial autonomy.

The goal to promote a more diverse and robust global financial system that is less vulnerable to the peculiarities of a single dominating reserve currency is still another factor. Dollarization is considered in this context as a way to promote stability and lessen the risk of economic contagion while lowering the hazards connected with an excessive reliance on the US dollar.

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But for developing countries, de-dollarization also brings significant costs and challenges. As developing countries move away from the US dollar, exchange rates may become more volatile, which could affect capital flows, trade, and investment. Additionally, the requirement for currency internationalization—the development of deep and liquid domestic financial markets—could be a difficult task for countries with less developed financial systems. A burden on already limited resources could also result from the transition's potential costs, which include adjustments to current trade and financial arrangements.

International trade settlement in rupees

A settlement between the two trading partners will primarily be hampered by the exchange rate. According to the RBI, the market may determine how much one currency will exchange for the other. This is only practical, though, if there is substantial trade activity going both ways between the two trading partners.

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Due to an expanding trade deficit and the inability to settle trade with Russia in Indian rupees as a result of the Ukraine crisis, the Reserve Bank of India (RBI) has finally decided to implement a new system for invoicing, payment, and settlement of exports and imports in Indian rupees. This program will have a significant impact on promoting the rupee as a medium of exchange.

Policymakers have long considered the possibility of conducting international settlement in rupees, but their main worry has been whether or not exporters and importers will accept the currency. Geopolitical factors, the Russia-Ukraine crisis, the sudden rise in the current account deficit after Covid, and this movement have all intensified. The forecast for the CAD is that it will more than double to $100 billion in 2022–2023. The increase in the CAD coincides with an increase in interest rates generally, and the RBI has also raised short-term rates by 90 basis points to 4.90 per cent in an effort to control inflation. Due to rising interest rates everywhere in the world, foreign investors have already started to pull their money out.

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In the end, this will have an impact on the rupee's value in relation to the dollar. The rupee has lost nearly 6% of its value in 2022. The harder challenge for reaching a settlement between the two trading partners, according to experts, will be the exchange rate or the number of nations willing to accept a rupee mechanism. According to the RBI, the market may determine the exchange rate between the two trading partners' currencies. But experts note that this is only practical when there is a significant amount of two-way trade (both import and export) between the two trading partners.

Rupee's potential to unseat the dollar

The Indian Reserve Bank (RBI) made it easier to settle international trade in Indian rupees. In a statement, the central bank said "It has been decided to implement a further arrangement for invoicing, payment, and settlement of exports/imports in INR in order to promote the growth of international trade with a focus on exports from India," the statement reads. Before implementing this system, banks must first receive RBI's foreign exchange division's approval.

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This policy decision is an attempt to "internationalize" the rupee by lowering exchange rate risks, which will lower the transaction costs of international trade and investment activities. This decision needs to be evaluated in light of the rupee's ongoing depreciation. With the internationalization of the rupee, the Indian economy will benefit greatly. First, increased trade and FDI will improve our economy's global integration. As a trading partner, many countries value India's economy, which is currently the sixth largest in the world. India's exports for the first time ever surpassed $400 billion in a fiscal year, and its total trade with the rest of the world in 2021–22 was worth over $1 trillion.

Additionally, India is rapidly rising in popularity as a destination for foreign investment. In 2021–2022, FDI in India reached a record high of $83.57 billion. By using the rupee as an invoicing and settlement currency, Indian businesses will be able to reduce the exchange rate risk they face in the international market, which will ultimately lower the costs of trade-related transactions.

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Second, the internationalization of the rupee will support the development of financial markets. According to an ADB Study (2014), international research shows that currency internationalization has a significant and positive effect on the development of a financial system in terms of trade settlement. For every unit increase in currency internationalization, it is predicted that the growth of the financial market will quicken by 0.2 percentage points in terms of private lending and 0.7 percentage points in terms of the stock market total value. Third, by reducing currency mismatch, the internationalization of the rupee would benefit financial institutions.

The "original sin," or the inability of nations to borrow abroad in their own currency, which is the cause of currency crises and financial fragility, would be addressed.

For the rupee to be recognized and accepted as a global reserve currency, this initiative must be supported by sufficient reforms that support and expand financial markets that are accessible to both residents and non-residents, as well as increase market liquidity.

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India's capital account would need to be liberalized in order to allow unrestricted financial flow across the border. A capital account that is fully convertible simply means that there are no restrictions or ceilings on the rupee's ability to be converted into foreign currency. The government has been progressively liberalizing the capital account. For instance, the RBI created the Fully Accessible Route (FAR) to allow non-resident investors to invest in certain government assets without any restrictions. But much work still needs to be done.

There is also worry that India's major trading partners won't accept payments in rupees for goods and services traded internationally. India's main trading partners are the US, United Arab Emirates, China, Singapore, and Saudi Arabia. The dollar is typically regarded as one of the strongest currencies in the world and is almost universally accepted as the preferred currency for international business transactions. It might be difficult to challenge the dollar's hegemony, at least at first.

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factors affecting currency strength

- The advantages of the globalization of the rupee may ultimately outweigh the disadvantages.
- According to Finance Minister Nirmala Sitharaman in 2022, India received 65% more FDI under the Modi administration than it did during the previous 10 years of government.
- The rupee is already well on its way to becoming a world currency. India and Russia reached their first rupee-based trade settlement as part of the International Settlement of Trade in December 2022.
- Sri Lanka, Bangladesh, Mauritius, and a few other countries are already considering using Indian rupees to settle bilateral trade.
- The United Arab Emirates and Saudi Arabia might soon accept rupee payments.
- If done properly, taking the rupee global will benefit India by better integrating our economy with the rest of the world, opening up opportunities for trade and investment, and increasing the rupee's predictability, stability, and demand on a global scale.