

De-Dollarization trend and RBI's push for Rupee's international status

The Russia-Ukraine war and OPEC's latest move for oil production cuts have made advocates of the U.S. dollar largely fall back. Critics have now begun to call out the dollar's "excessively entitled" nature and are now looking forward to boosting international trade using their own currencies. The dollar has benefitted immensely from the magnitude of trade in the US economy, the profundity of its financial markets, the robust history of experiences gained from tackling various financial challenges, and more. The liquidity possessed by it remained unbeaten for almost a century. However, these scenarios have begun to change. Renminbi used by the Chinese is now emerging as an alternative. For this to be a success, the Chinese economy will need to exhibit the same conditions. Financial sanctions imposed on Russian businesses and their associates have also made nations implement alternatives.

How can Rupee's entry shift the game?

Rupee as the first choice in currency trade transactions among transboundary partners will cushion the risks for Indian firms. Adding government securities in world bond indicators and broadening the scope of commercial sectors will diminish the price of working capital for local businesses. The government could profit from this as their compensatory spending can be alleviated by furnishing their domestic debts in foreign markets. This could reduce the pressure on RBI for maintaining additional forex reserves to counter imbalances. Volatility issues can be resolved if tighter monetary policies are adopted at the beginning which indirectly keeps current account deficits in check and reduces overall gold liabilities. The RBI expects that such a move will help in reducing India's trade deficits as a portion of certain assets are covered in debt or equity. Moreover, the replacement cost of the rupee for another currency would be less (which otherwise wouldn't be possible in a trade deficit situation), and borrowing rates can be reduced similarly which boosts overall economic activity.

