Editorial

July 15, 2010 was an important day on the Indian calendar for it was the day when approval was given by the Indian Cabinet for a new symbol of the Indian rupee. With this, the rupee will join the select club of currencies, such as the US dollar, British pound sterling, euro, and Japanese yen that have a clear distinguishing identity. The symbol will standardize the expression for Indian Rupee in different languages, both within and outside the country, and will now also distinguish the Indian currency from those countries whose currencies are also designated as Rupee or Rupiah, such as Pakistan, Nepal, Sri Lanka and Indonesia. The symbol will be included in the "Unicode Standard", written in major scripts of the world, to ensure that it is easily displayed or printed in the electronic and print media.

While the cynics might well view this as "just a symbol", many experts bullish on Indian growth consider this as more than symbolic. For the latter club of people, this represents yet another step that India takes toward economic domination in the world. This development against the backdrop of weakening hold of Western nations over global economy gives an opportunity for us to dwell on whether the Indian rupee is truly prepared to take over the mantle of global reserve currency from the US dollar.

The strength of any nation's currency not only depends on the extent to which it is traded/accepted in international transactions but also on the fundamentals of the economy as indicated by its growth figures (both aggregated and per capita), inflation, indebtedness (public & private; internal & external), depth of financial and banking systems, reliance on exports of domestic sources for funding its growth, availability of reserves to act as a buffer against shocks and volatility of its exchange rate.

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In terms of fundamentals, Indian economy offers a mixed bag. India demonstrated appreciable resilience in its growth during the recent global meltdown by clocking nearly 9% GDP growth rates; however, it ranks 139th in terms of per capita income in the world. High domestic savings at 35% fuel its growth story as opposed to exports/external sources of finance which impart stability to its growth process. Its financial and banking system is famed worldwide for its maturity and robustness. However, high fiscal indebtedness (both at Central ad State levels) at nearly 12% of GDP constrain its growth prospects and also fuel inflation. Despite very low share in world trade at 1.5%, India is ranked sixth in terms of forex reserves accumulated which evoke confidence in the economy.

Apart from the inherent economic scenario, curbs on full capital account convertibility imply that the share of Indian Rupee in total currency turnover is very small. BIS Triennial Central Bank Survey data for 2007 shows that India's daily average share in the total foreign exchange market turnover is 0.9% as compared to 34.1% for the UK and 16.6% for the USA.

This makes it clear that India has much work to do before the rupee can reign supreme on the global map. It needs to leverage on its strengths of a vast pool of skilled and English speaking manpower; technological prowess; its stable democracy and the ancient legacy of frugality and high moral values bequeathed to it.

It will also help, in this context, to see how China is charting a more graduated approach to making the yuan the global currency. First, China is propagating greater use of the yuan in settling trade transactions with Hong Kong, Taiwan and border areas of Pakistan. It is also actively pushing forward the concept of a Asian Currency Unit where the yuan will have a greater say. Finally, by emerging as the factory of the world, it is increasing its domination on global trade.

The US dollar continues to be the reserve currency of the world— more as a default currency in the absence of any alternative global currency. This is an opportunity for India to seize to ensure greater externalisation of the Indian rupee.