



CBD

**India's answer
to the US Dollar**

A Financial Analysis by

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Introduction

The dominance of the US dollar and the Western control of the SWIFT system has often caused problems for the rest of the world. Weaponizing the financial and economic systems to impose sanctions, as the US has done time and again in the past, adds to the woes of other countries. To escape from this control, major non-US non-Euro zone economies such as India, China, and Russia have long been searching for effective alternatives. The advent and growth of the UPI system has been a beacon of hope for these nations. The hope is that with the eventual adoption of India's UPI system and the corresponding push from India regarding its developing CBDC and Digital Rupee, India will be able to offer a currency strong enough to compete with and maybe even counter the US dollar. This analysis takes a look at the current world scenario, the Indian stand in it, and the strategies that India should adopt to make sure of the growth of the INR and the Digital Rupee.

Executive Summary

Client **should invest** in CBDC and use it for its transactions

UPI is growing, both in India and abroad. Statistics show that **almost 25% of the country** is on the UPI grid, and many other countries are joining in on the ride. The South and South-East Asian market has already **widely accepted** the INR for trade and other uses, and is now joining the UPI network. With India's growing economy and voice as a neutral power, it is only natural that the Digital Rupee and CBDC would be **further accepted** across these countries. Having already supported the Global South in the G20 2023 and with its well-maintained relations with so many countries, India's **CBDC is slated for growth**. Considering these and more factors, as analyzed in the document, the client should consider investing in the Digital Rupee now to gain maximum benefits in the future.

Contents

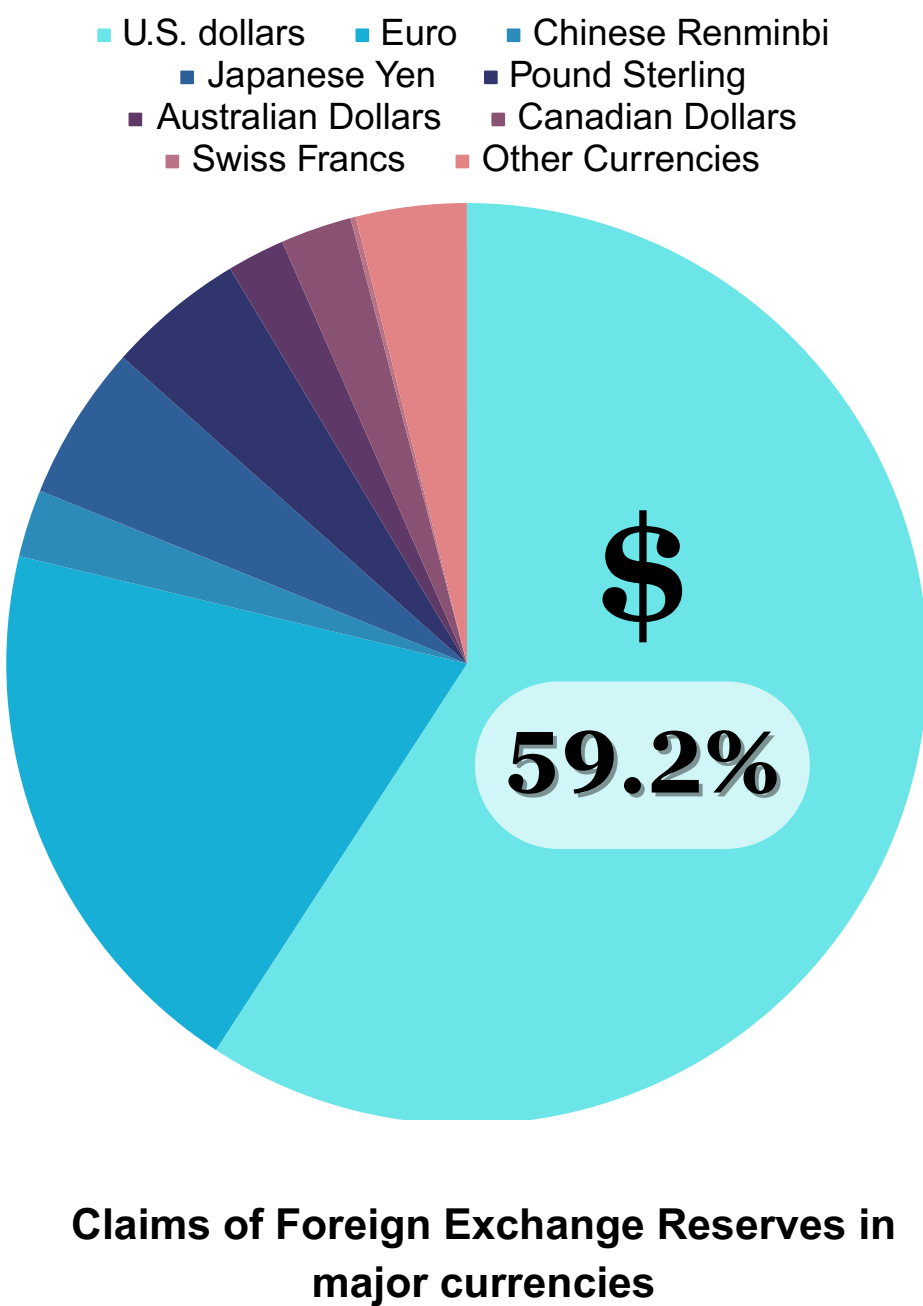
US Dollar	1
SWIFT	2-3
UPI	4
CBDC	5-6
Advantages of UBI & CBDC over SWIFT	7
Frameworks and Measures for Implementation of the Digital Rupee	8
Rupee as International Currency	9-11
Impact of Digital Rupee	12
Strategies for India	13
Porter's Five Forces Analysis of CBDC	14
Client Strategy: The Client should invest in CBDC	15
References	16



The US Dollar (\$)

In 1944, the Bretton Woods agreement sought to create a fixed currency exchange rate using the gold standard. The US dollar was chosen to be the currency which would be pegged to the gold standard, while other currencies would be pegged to the USD. This paved the way to the worldwide domination of the US dollar. Even though the system eventually failed, the dominance of the dollar hardly faded.

FOREIGN EXCHANGE RESERVES TODAY



The World - Official Foreign Exchange Reserves by Currency data for Q3 2023 from IMF shows the above breakup among claims in major currencies. The US dollar continues to be a dominant force in world economy, with a 59.2% claim.

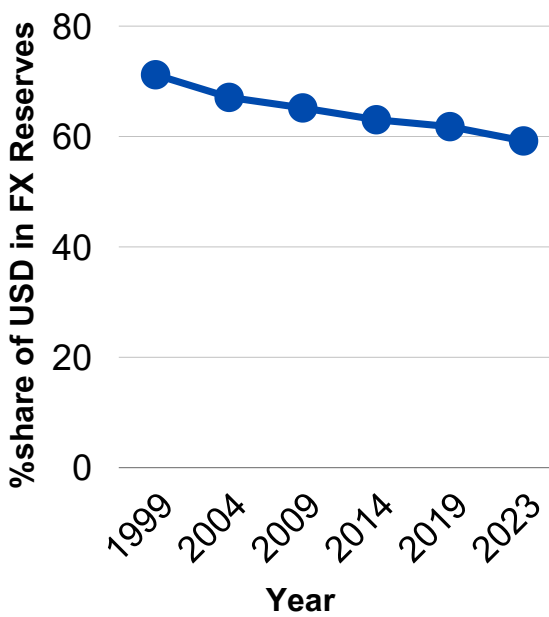
The USA has used the US dollar to disrupt the world economy. High global demand for dollars allows the United States to borrow money at a lower cost and use currency as a tool of diplomacy, something which it has done time and again. It also enables the United States to impose effective economic sanctions on other countries, a power which they have most extensively used among the major economies of the world.

FACTORS FOR CONTINUED USD DOMINANCE

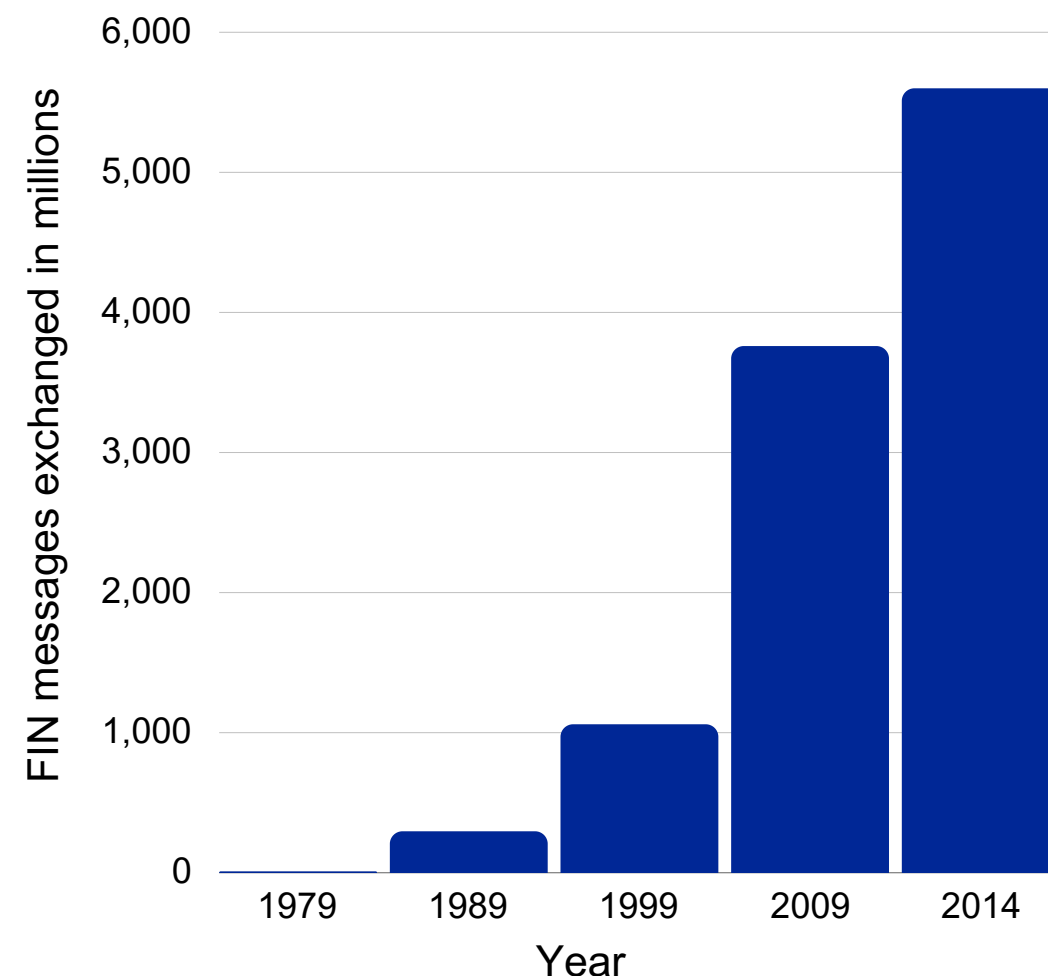
- **Size of the domestic economy:** The US economy is the largest in the world
- **Importance of the economy in international trade:** US is the biggest international player in trade. The American hegemony has almost dictated markets and trade all around the world in the post WWII era, and continues to dominate.
- **Size, depth, and openness of financial markets:** The US has deep, liquid, open financial markets. The absence of a common Euro area sovereign debt market has been pointed out as a main hindrance to the Euro's threat to the USD.
- **Convertibility of the currency:** The US dollar is used as the primary currency of trade internationally, and the US dollar is freely convertible to all other currencies.
- **Use of the currency as a currency peg:** Historically, other currencies were pegged to the USD till the 1970s under the Bretten Woods Agreement.
- **Domestic macroeconomic policies:** The US has sound domestic macroeconomic policies.

IS A NEW AGE DAWNING?

- Calls to move away from the US dollar as the primary currency for foreign exchange reserves and trade, a move commonly known as **de-dollarization**, is growing.
- Over the past 20 years, the share of USD has gone down from **over 70% to below 60%**. The dip has been especially observed in recent, post-Covid years, with a myriad of new geopolitical challenges looming over the horizon.
- The dominance of the USD **may have already started declining**, but it will still take many years before the effects are truly felt worldwide.



GROWTH OF SWIFT



Messages in years since inception of SWIFT

In YTD December 2022, Swift recorded an average of **44.8 million FIN messages per day**.

SWIFT is overseen by the G-10 countries' banks. These countries are Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. The European country of Belgium acts as the lead overseer alongside other members such as the U.S. Federal Reserve. SWIFT is, however, a neutral entity.

HOW DOES SWIFT WORK?

SWIFT assigns each financial organization a unique code (SWIFT codes) with either eight or 11 characters, known as a bank identifier code or BIC. The BIC may also use the terms SWIFT code, SWIFT ID, or ISO 9362 code.² These codes are then used to carry out the transfer of messages. The codes are formatted as follows:

- **First 4 characters:** the institute code
- **Next 2 characters:** the country code
- **Next 2 characters:** the location/city code
- **Last 3 characters:** optional, but organizations use them to assign codes to individual branches.

SWIFT codes are at the core of the SWIFT system's functionality. This standardized code structure enables financial institutions to communicate in a **universal language** and accurately send and receive transactional messages.

To better understand SWIFT transactions, it helps to think of them less as "transactions" and more as "transmissions." Again, SWIFT is not a financial institution and does not hold funds nor facilitate the movement of funds between financial institutions. SWIFT moves messages, not money, between institutions. These messages, however, are instrumental in the movement of funds, since they allow banks and other financial entities to easily and safely communicate with each other about funds transfers.



Visa and Swift announced a collaboration in September 2023 "to streamline international business-to-business (B2B) payments by strengthening connectivity between their networks that move trillions in value globally."



SWIFT

The **Society for Worldwide Interbank Financial Telecommunications (SWIFT)** system powers most international money and security transfers. Starting off in 1973 with 239 banks and 15 countries, it has been a major force in making efficient cross-border payments, expanding to over 11,000 institutions spread across over 200 countries and territories in the world.

HOW TO TRANSFER MONEY USING SWIFT

First, gather these items:

- Recipient's bank name, address and country, routing code
- Recipient's full legal name, current address, and account number
- SWIFT Code of the bank account
- Your government-issued ID
- Purpose of sending funds
- Any other documentation or information required by your bank

1. Go to your bank or log into your bank's system to request an international wire.
2. Make sure you understand all fees and limits associated with sending cash abroad.
3. You may be asked for the country you're sending to, the currency you wish to send in, and the above information.
4. Send the money from your bank via SWIFT, and keep a record of the event.

If you're receiving money, you'll need to collect your bank's SWIFT number for the person sending you money.

WHO USES SWIFT?

- Banks
- Brokerage institutes and trading houses
- Securities dealers
- Asset management companies
- Clearing houses
- Depositories
- Exchanges
- Individuals or businesses making international wires or money transfers

MAJOR PROBLEMS

1. **Tedious:** A person requires a lot of documentation and information before they can send money. This is extremely tedious and inconvenient for an average user making cross-border payments
2. **Inefficient:** The SWIFT system has become based on the model that the more you pay, the faster your transfer will take place. This goes against their initial objective to provide 'swift', transparent transactions.
3. **Newer Technologies:** Newer technologies such as blockchain and cryptocurrency have made money transfers faster than ever

In general, it is too slow and expensive for the 21st century world and the technologies that we have already adopted among them.

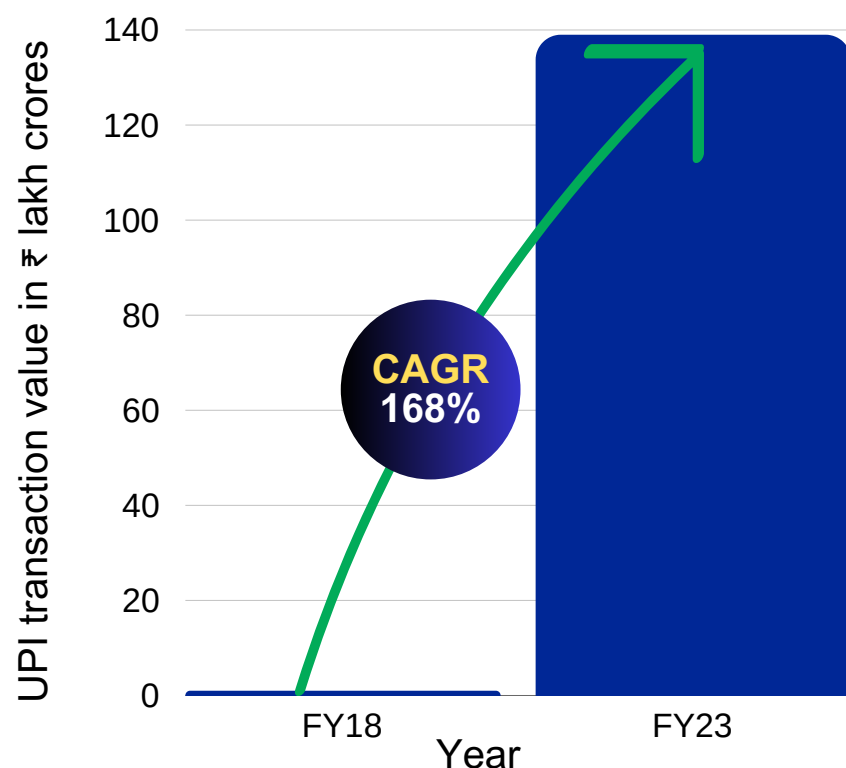


Because membership in SWIFT allows countries to easily conduct international financial transactions, **exclusion from SWIFT is an economic sanction** that can be used against countries whose actions are condemned by the global community. For example, when Russia invaded Ukraine in 2022 many banks in **Russia and Belarus were removed from the SWIFT network**, including Bank Otkritie, Bank Rossiya, Novikombank, and VTB Bank.

UPI

The **United Payments Interface (UPI)** is a revolutionary Indian real-time payment system, set up by the National Payments Corporation of India in 2016. It easy a simple, fast, and efficient way to carry out inter-bank Peer-to-Peer (P2P) and Peer-to-Merchant (P2M) transactions. UPI uses and is built on existing systems such as the Immediate Payment System (IMPS) and the Aadhar Enabled Payment System (AEPS). It is regulated by the Reserve Bank of India (RBI), which is the central bank of India.

GROWTH OF UPI

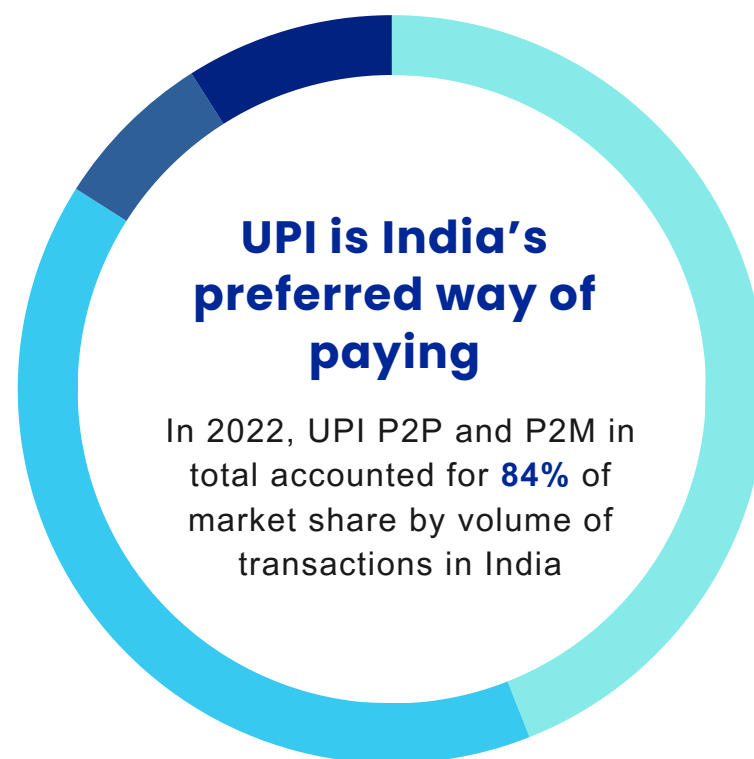


CAGR of UPI payments value shows tremendous acceptance of the payment method

The number of monthly transactions over UPI crossed the 10 billion mark for the first time in August 2023. In November 2023, UPI recorded **11.23 billion monthly transactions**, with 516 banks connected to the network and ₹17,39,740.61 crores in value. The UPI system is looking to reach 100 billion transactions per month.

Over just 7 years, the UPI system has received widespread acceptance from all parts of society. UPI has recorded over 260 million individual accounts, which implies that **over 25% of the Indian population is on the UPI network** and uses it actively on a day-to-day basis.

UPI P2M CREDIT/DEBIT CARDS UPI P2P CASH & OTHERS



HOW DOES UPI WORK/HOW TO USE UPI

First, a User must register on a UPI app. The steps for registration are as follows:

- User downloads the **UPI application** (Google Pay, BharatPe, PhonePe, etc) from the App Store/Banks website
- User creates his/her **profile** by entering details like name, virtual id (payment address), password etc.
- User goes to "Add/Link/Manage Bank Account" option and **links the bank and account number with the virtual id**

Once this virtual id is created, the bank details or bank password of the users are **no longer required**. This leads to enhanced safety and smoother transactions.

Sending money on the UPI is called a "**push**." Follow the steps below to send money:



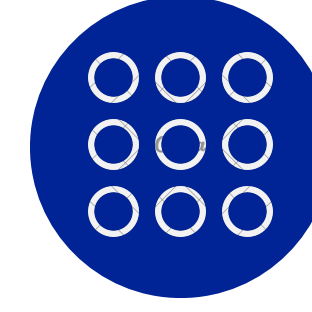
Open UPI App



Scan QR code or choose recipient



Select amount to be sent



Enter UPI Pin



And done! Receive an SMS confirmation

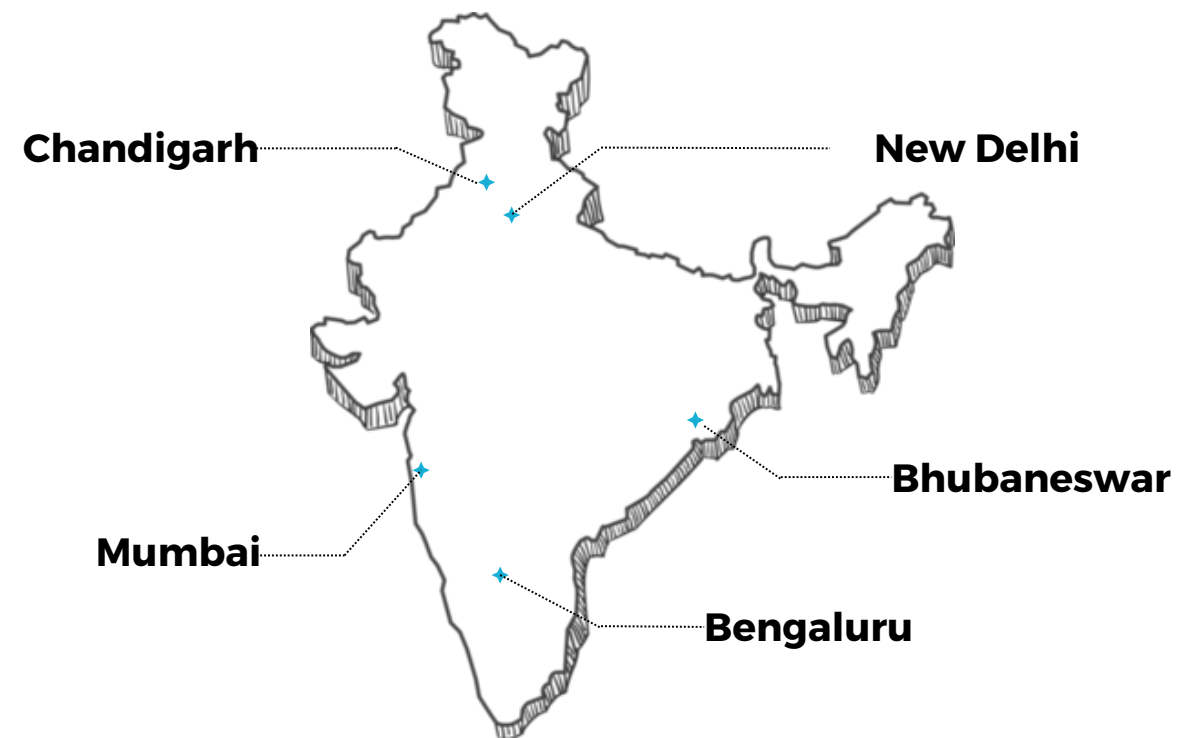
Receiving money through the system is called a "**pull**." The process is the same as above, except the user requests money and the sender must accept the request by entering their pin. SMS confirmations are received by both.



CBDC

Central Bank Digital Currency (CBDC) is a digital form of currency notes issued by a central bank. In India, this digital currency will be referred to as e₹ (digital Rupee). The e₹ will provide an additional option to the currently available forms of money. It is substantially not different from banknotes, but being digital it is likely to be easier, faster and cheaper. It also has all the transactional benefits of other forms of digital money.

PILOT PHASE



The Reserve Bank of India (RBI) launched the first pilot of Digital Rupee-Retail segment (e₹-R) on December 01, 2022. The pilot phase of this new movement was launched in five cities among select customers and merchants (Closed User Group, CUG). The RBI identified eight banks for phase-wise participation in the retail pilot project.

The first phase includes four banks, namely the State Bank of India, the ICICI Bank, the Yes Bank and the IDFC First Bank. Subsequently, another four banks, viz., the Bank of Baroda, the Union Bank of India, the HDFC Bank and the Kotak Mahindra Bank participated in the retail pilot.



MOTIVATIONS

- CBDC would **eliminate financial barriers**, offering a cost-effective means of conducting transactions, especially for those with limited cash.
- CBDCs would immensely **reduce cost** associated with physical cash management
- RBI wants to enable people to open CBDC wallets
 - **Without needing a bank account**, thus making it an improvement over UPI
 - **With offline capabilities**, strengthening financial inclusion.
- CBDCs will make transactions easy in **rural areas** with patchy mobile networks or few bank offices, and to those reluctant to engage with regular banks. Offline CBDC usage in rural areas could help increase digital collections for NBFI lenders that depend significantly on cash receipts.
- CBDC aligns with RBI's vision of a further **cashless economy**.

SALIENT FEATURES

- CBDCs operate on the robust foundation of **blockchain technology**, employing encryption and decentralized ledgers to safeguard financial transactions.
- The digital rupee of the CBDC would function like normal cash, meaning it has **legal tender status** and **brings no interest**.
- The government has directed all the banks to link their CBDCs with the **UPI system** using the much used **QR codes** of UPI. This ensures interoperability and uses well the competitive advantage India already has from the wide acceptance of the UPI system.

CBDC

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HOW DOES CBDC WORK?

The RBI specifies two formats, CBDC-W and CBDC-R (W and R standing for wholesale and retail respectively). The RBI will create tokens, and issue them to financial entities called Token Service Providers (TSPs), which are the banks selected for the Digital Rupee Pilot Program. The TSP will then distribute the tokens to interested parties/customers. You may store digital Rupees in your bank's digital wallet CBDC-R app. The digital wallet works in the same way as your cash wallet, except these transactions will be entirely paperless.

HOW TO USE CBDC

LOAD

Click on load select the total token amount or select the different denominations of Digital Rupee. Load the amount either from a supporting bank account or using UPI.

REDEEM

Select the total token amount and click on unload. On choosing the Linked Bank Account that needs to be credited, the money will be credited.

TRANSFER

Using the wallet app, select the desired payment method (Phone Number or QR Code) in the send option. Enter the amount or select the number of different denominations of token that are available in the wallet and click on 'Send'.



Denominations of CBDC-R

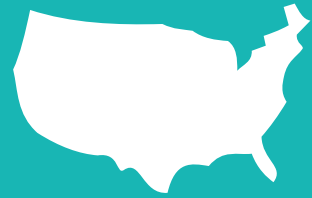
THE STORY SO FAR

- In a press release in September 2023, the RBI governor, Shaktikanta Das revealed that India's central bank digital currency trial had been rolled out to approximately **1.46 million users**, operated through **13 banks in 26 cities**, and over **300,000 merchants** accepted payments in CBDCs as of Aug 31.
- Das further detailed that the RBI has enabled full interoperability of **CBDC with UPI QR codes**.
- Das noted that the central bank is targeting **1 million daily CBDC transactions** by December this year, which will provide it with sufficient data points for analysis. The current number of daily transactions using CBDC, however, **falls way short** of the target.
- The Reserve Bank of India (RBI) in October initiated a pilot program for the wholesale segment of its central bank digital currency (CBDC) in the **interbank call money market**, according to dealers from 9 participating banks. This is the second use case of testing wholesale CBDC, the first being the government securities market introduced in November last year.

'We are now more convinced than ever that CBDC can serve as the most effective and efficient method for cross-border payments, especially for international transactions',
Das said on 13th October, 2023



Advantages of UPI & CBDC over SWIFT



The SWIFT system is heavily controlled by the West, especially the United States. The wide use of SWIFT currently in international trade also makes it a lethal weapon to use. For example, in March 2012 Iran was banned from SWIFT because of which Iran lost 30% of its foreign trades and oil export revenues. Russia faced a similar situation when it was sanctioned after invading Ukraine. However, India has always been a largely neutral country on the international forum, and thus can promote the UPI/CBDC system as an alternative without countries having to think of threats such as sanctions.

1



The SWIFT system is a very slow process overall, as is evident from the way it is carried out. It even has the negative factor that the more a customer is willing to pay, the faster the transfer takes place, which is a huge hindrance to efficiency. Modern methods of payments such as cryptocurrencies using blockchain technology are already much faster. These technologies are being used by CBDC to develop fast, efficient money transfer systems. The UPI system is already a real-time money transfer system with no lag, and has also worked successfully in cross-border transactions.

2



The SWIFT system requires a great deal of knowledge about the recipient, the recipient's bank, and all other relevant details to send any amount of money. This is time-consuming and unnecessarily lengthy. The UPI and CBDC systems, on the other hand, rely on the created virtual ID and virtual wallets of the receivers, which streamlines the process and makes it faster and easier to operate.

3

Frameworks and Measures for Implementation of the Digital Rupee

Legal Framework:

- Purpose: Define the legal status and framework for the Digital Rupee.
- Components:
 - Clarify the legal tender status of the Digital Rupee.
 - Define the rights and obligations of users and issuers.
 - Address issues related to contracts, taxes, and legal disputes.

Regulatory Oversight:

- Purpose: Ensure regulatory supervision and adherence to established standards.
- Components:
 - Designate a regulatory authority (e.g., central bank) to oversee Digital Rupee operations.
 - Establish regulatory guidelines for issuance, redemption, and circulation.
 - Develop a system for ongoing monitoring and enforcement.

Privacy and Data Protection:

- Purpose: Safeguard user data and privacy.
- Components:
 - Implement strong data protection measures.
 - Define rules for the collection, storage, and sharing of user information.
 - Ensure compliance with existing data protection laws.

Cybersecurity Standards:

- Purpose: Protect the Digital Rupee system from cyber threats.
- Components:
 - Set cybersecurity standards and protocols for the entire ecosystem.
 - Ensure encryption and secure communication channels.
 - Conduct regular security audits and vulnerability assessments.

Financial Stability Measures:

- Purpose: Prevent systemic risks and ensure financial stability.
- Components:
 - Implement stress testing for Digital Rupee systems.
 - Establish contingency plans for potential disruptions.
 - Coordinate with financial institutions to address systemic risks.

Monetary Policy Integration:

- Purpose: Align the Digital Rupee with overall monetary policy goals.
- Components:
 - Integrate Digital Rupee issuance and circulation into existing monetary policy frameworks.
 - Establish mechanisms for controlling money supply and inflation.
 - Consider impacts on interest rates and exchange rates.

Privacy and Data Protection:

- Purpose: Safeguard user data and privacy.
- Components:
 - Implement strong data protection measures.
 - Define rules for the collection, storage, and sharing of user information.
 - Ensure compliance with existing data protection laws.

Cross-Border Regulatory Cooperation:

- Purpose: Address regulatory challenges associated with cross-border transactions.
- Components:
 - Collaborate with international regulatory bodies for harmonized standards.
 - Establish agreements with other countries on cross-border Digital Rupee transactions.

Rupee as International Currency

The International Monetary Fund (IMF) has been emphasizing on the need of currencies other than the USD for a while now. It has identified the Indian rupee and the Chinese renminbi as potential candidates. Here's a look at the INR internationally.

MOTIVATIONS

- ▶ Internationalization of the Indian Rupee refers to the process of increased cross-border transactions of Indian currency, especially in import-export trades followed by other current account transactions and then capital account transactions. Being an accepted international currency would mean the Indian rupee is freely used in transactions by residents and non-residents and as a reserve currency for global trade.
- ▶ As of July 2022, USD accounts for about 88% of global foreign exchange market turnover, followed by the Euro, Japanese Yen and Pound Sterling. The Indian rupee accounts for a mere 1.7%.
- ▶ The removal of seven Russian banks from SWIFT arrangement as part of the Ukraine-induced economic sanctions against Russia was the trigger. The only way to stop the weaponisation of the USD is by ensuring a larger part of international trade is carried out using the INR.

BENEFITS FOR INDIA

- ▶ The C. Zhang (2014) model showed that welfare is unambiguously higher for a country when its currency is accepted abroad.
- ▶ The most important advantage of internationalising Rupee is to reduce dependency on the USD for foreign trade.
- ▶ The need to maintain forex reserves can drastically reduce if a sizable share of India's trade can be settled in terms of the domestic currency.
- ▶ It would further increase the bargaining power of India in international business.
- ▶ Expanding the use of the rupee for international trade will reduce currency risk for Indian businesses by eliminating their exposure to currency volatility. This can reduce the cost of doing business and can hence help in making exports more competitive in the global market.

INDIA'S EFFORTS

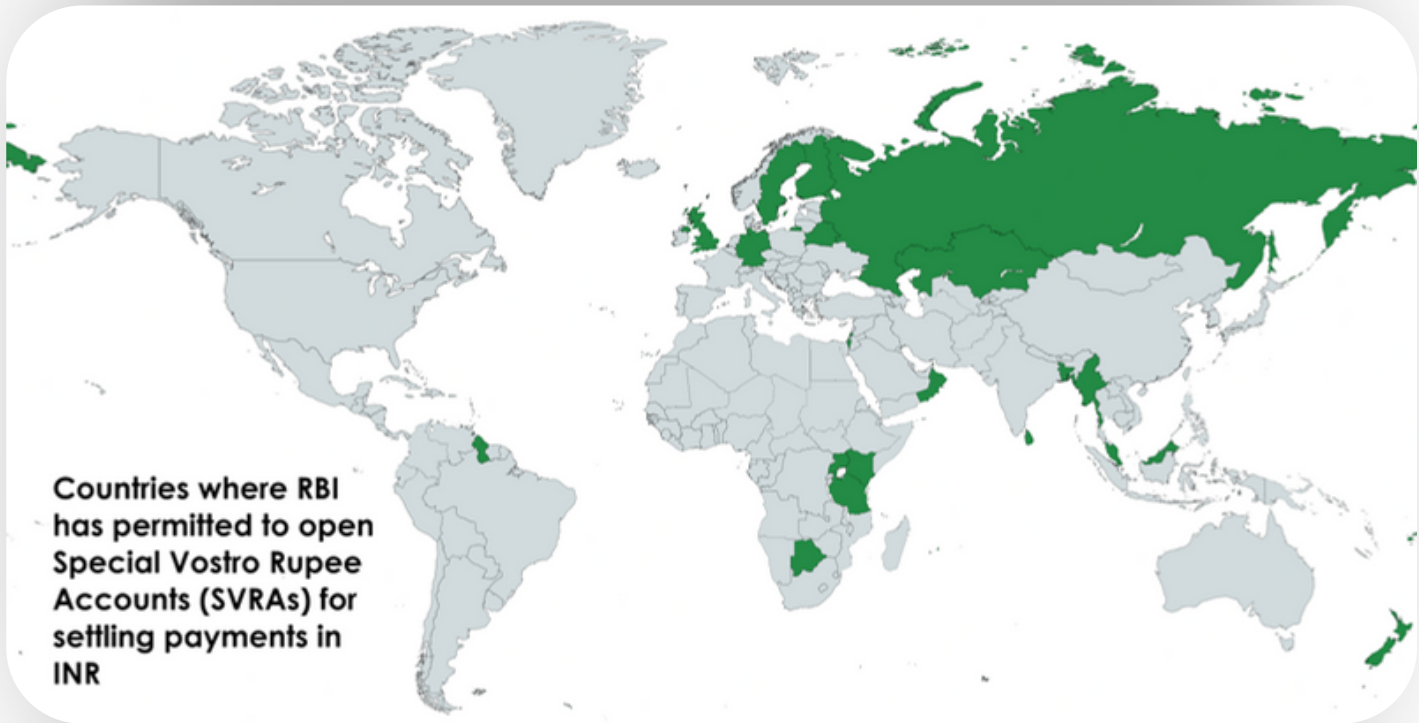
- ▶ In July 2022, the RBI issued a circular on "International Trade Settlement in Indian Rupees", which underlined the terms not only for trade settlement but also for cross-border transactions in Rupees. An important component of this arrangement is that Rupee surplus balance can be used for capital and current account transactions in accordance with mutual agreement. Thus, foreign entities holding Rupee balances are allowed to invest in assets in India.
- ▶ As part of its Foreign Trade Policy 2023, the government encourages the use of the Indian currency in cross-border trade, aided by this settlement framework from July 2022.
- ▶ More recently in March 2023, the RBI put in place the mechanism for rupee trade settlement with as many as 22 countries. Banks from these countries have been allowed to open Special Vostro Rupee Accounts (SVRAs) for settling payments in Indian Rupees.

Rupee as International Currency

The International Monetary Fund (IMF) has been emphasizing on the need of currencies other than the USD for a while now. It has identified the Indian rupee and the Chinese renminbi as potential candidates. Here's a look at the INR internationally.



MAJOR INTERNATIONAL TIES



In December 2022, India pioneered its first settlement of foreign trade in rupees with Russia as part of the 'International Trade Settlement in Indian Rupees' mechanism initiated by the Reserve Bank of India. This milestone transaction is slated to save dollar outflows estimated at \$30 billion on crude oil imports. This payment arrangement assumed greater importance in 2022-23 as India increased its dependence on discounted Russian oil, making it the second-largest source of crude oil.



An agreement was signed between India and Iran to undertake eligible trade transactions using the Indian rupee. In terms of the existing Arrangement for Bilateral Trade Payments between India and Iran (2018), the Indian rupee Vostro accounts of Iranian banks are credited 100 percent in Indian rupees by Indian importers against invoices payable for the supply of goods and services from entities in Iran, without the requirement of any additional certification or authorization.



On July 15, 2023, the RBI released a statement stating that India and the United Arab Emirates (UAE) signed a memorandum of understanding (MoU) to set up a framework to strengthen the use of local currencies for cross-border transactions. This MoU aims to implement a Local Currency Settlement System (LCSS) to promote the use of the Indian rupee and AED (UAE dirham) bilaterally. The MoU covers all current-account transactions and permitted capital-account transactions.

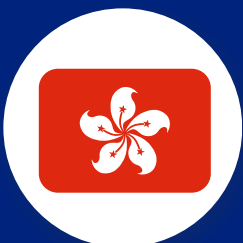
Some countries where the Indian rupee is accepted to some extent are:



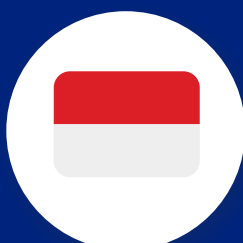
Singapore



Malaysia



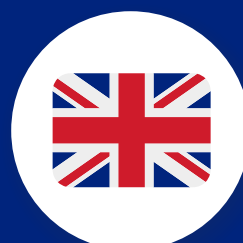
Hong Kong



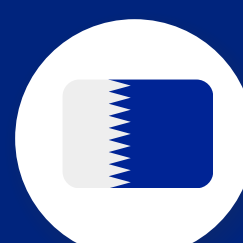
Indonesia



UAE



United Kingdom



Qatar



Sri Lanka

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MAJOR INTERNATIONAL TIES



The RBI also provides liquidity to the South Asian Association for Regional Cooperation (SAARC) countries under the SAARC swap framework. Under the SAARC swap agreement, the requesting central bank can withdraw in US dollars, euros and Indian rupees.



In April 2023, India and Malaysia agreed to settle trade in Indian rupees.



The INR is considered legal tender in Bhutan and Nepal.



In August 2022, Sri Lanka also made Indian Rupee a designated foreign currency, facilitating Indian rupee-based bilateral trade between Sri Lanka and India.



The BRICS nations have been at the forefront of pushing for an alternate currency to the USD. The “Joint Statement of the BRICS Ministers of Foreign Affairs and International Relations” released after the meeting of the foreign ministers of BRICS in South Africa, on June 1, 2023, underscored the importance of encouraging the use of local currencies in international trade and financial transactions among BRICS members as well as with their trading partners. BRICS had proposed a New Development Bank (NDB) and a BRICS currency to lessen the influence of the west on economic policies of the world. However, India's External Affairs Minister, S. Jaishankar in a press conference held on Monday, 3rd July, 2023 said that India has no plans for a BRICS currency. He declared a month before the summit that India might back out from creating the new currency. Instead, India is focused on strengthening its national currency, the Rupee, and making the Rupee stronger will be the top priority of the Indian government, Jaishankar had stated. Although the Chinese renminbi has a greater market share, the lesser faith of many countries around the world on China make the INR a better option.

MAJOR ROADBLOCKS

! Rupee-Trade Arrangements not easy to implement. This was also the main reason why India and Russia have suspended efforts to settle bilateral trade in rupees

! India has a trade deficit with its major trading partners including China, UAE, Saudi Arabia, and Russia. India's large trade deficit vis-a-vis Russia, which implies that the latter would be saddled with large Rupee balances, is also why it has been reluctant to Rupee-Rouble trade.

! The rupee is not fully convertible; India's share of global exports of goods is just about 2% and these factors reduce the necessity for other countries to hold rupees.

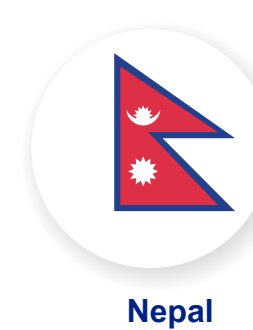
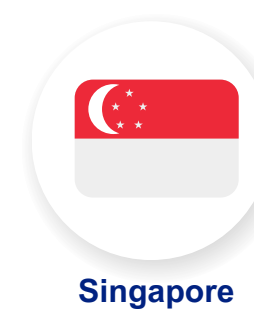
! As the Rupee becomes more internationalized, it is likely to become more vulnerable to external economic shocks, such as changes in global interest rates or fluctuations in commodity prices. This could make it more difficult for the central bank (RBI) to maintain both exchange rate stability and a domestically oriented monetary policy.

Impact of Digital Rupee

The IMF has been highlighting the need for alternate currencies, other than the USD, for some time now. The INR and the Digital Rupee could be an important player in this competition.

SPREAD OF THE UPI SYSTEM

India has shared its UPI technology with many other countries, some of them being:



A new development enables faster remittances between India and Singapore. India's retail payment system, Unified Payments Interface, and Singapore's equivalent network, PayNow, were integrated on February 21, 2023. This linkage will allow users from both countries to access faster and more cost-efficient cross-border remittances.



A video of Australian Deputy Prime Minister Richard Marles trying Delhi's famous chaat delicacy, Ram Laddoo, and Nimbu paani at roadside stalls and paying via UPI went viral recently.

No other country in the world has been able to develop a framework as robust in safety and efficient in technology as India's UPI. The fact that India is open to sharing this technology with other countries freely is welcomed by other countries, raising India's stand in their eyes. The push for the Digital Rupee, which would follow up the UPI system, can be expected to be similarly met, although it may take more negotiations to get countries to use it.

ACCEPTANCE OF THE DIGITAL RUPEE



India's push for trade in INR has been met, but quite feebly, as we have discussed. However, among the strategic bilateral trade deals in local currencies which India has, **most countries are looking for an alternative to the SWIFT system** to avoid sanctions. The Digital Rupee with the robust UPI system to back it up would be welcome in those cases.



With Russia being sanctioned and many countries being wary of China and its trade, and with the BRICS currency not coming in the near future, the BRICS block, and alternately all major economies of the world outside the Euro Zone and America, may look at the **INR to carry out trade**. Thus **diplomatic ties could be strengthened** in this way, and the adoption of the digital rupee would highly favour India.

Strategies for India

It would take a great deal of planning to make rupee internationalization functional in a way that appeals to other countries and does not adversely affect the domestic fundamentals. The government must approach in a steady, secure manner, keeping in mind the potential risks and keeping the economy as a whole stable at all times.

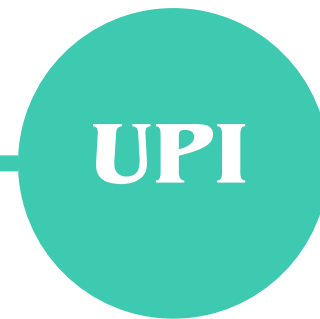
We have analysed the major problems regarding INR as an international currency, including not enough depth of financial markets and trade deficits. We have also observed the reasons for USD's dominance and the competitive advantage UPI and CBDC provides India. Based on all our analysis, the following are some strategies for India to eventually turn the INR into a powerhouse currency for the global market.



India to have a large and deep domestic financial market to be better equipped to handle external shocks and make it easier for the RBI to manage its monetary policy.



India must focus on countries where India is a net exporter and does not have a trade deficit, where it can bargain for payment in INR.



India must focus on expanding its UPI network and making the technology available to more and more countries. These countries could be negotiated with to pay in INR when they use UPI to pay to India. This could be followed up by a push to incorporate CBDC as well.



As an immediate plan, India must continue to work on bilateral trade settlement agreements and promote the INR there. For example, the USD's share in Russia-China bilateral trade settlement has fallen to less than 50% from nearly 90% in 2015.



India must focus on becoming a large economy so that other big countries would want to trade in rupees.

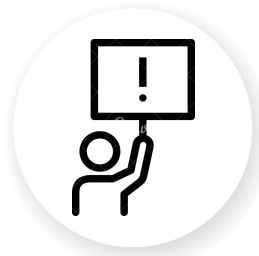
This calls for a significant rise in India's share of world trade in merchandise from below 2% currently.

Porter's Five Forces Analysis of CBDC



Intensity of Competitive Rivalry

- Low due to the government's monopoly on the digital rupee.
- Limited competition in the CBDC market, dominated by regulatory control.
- Collaboration and interoperability standards rather than direct competition.
- Potential for strategic alliances between financial institutions and technology firms.



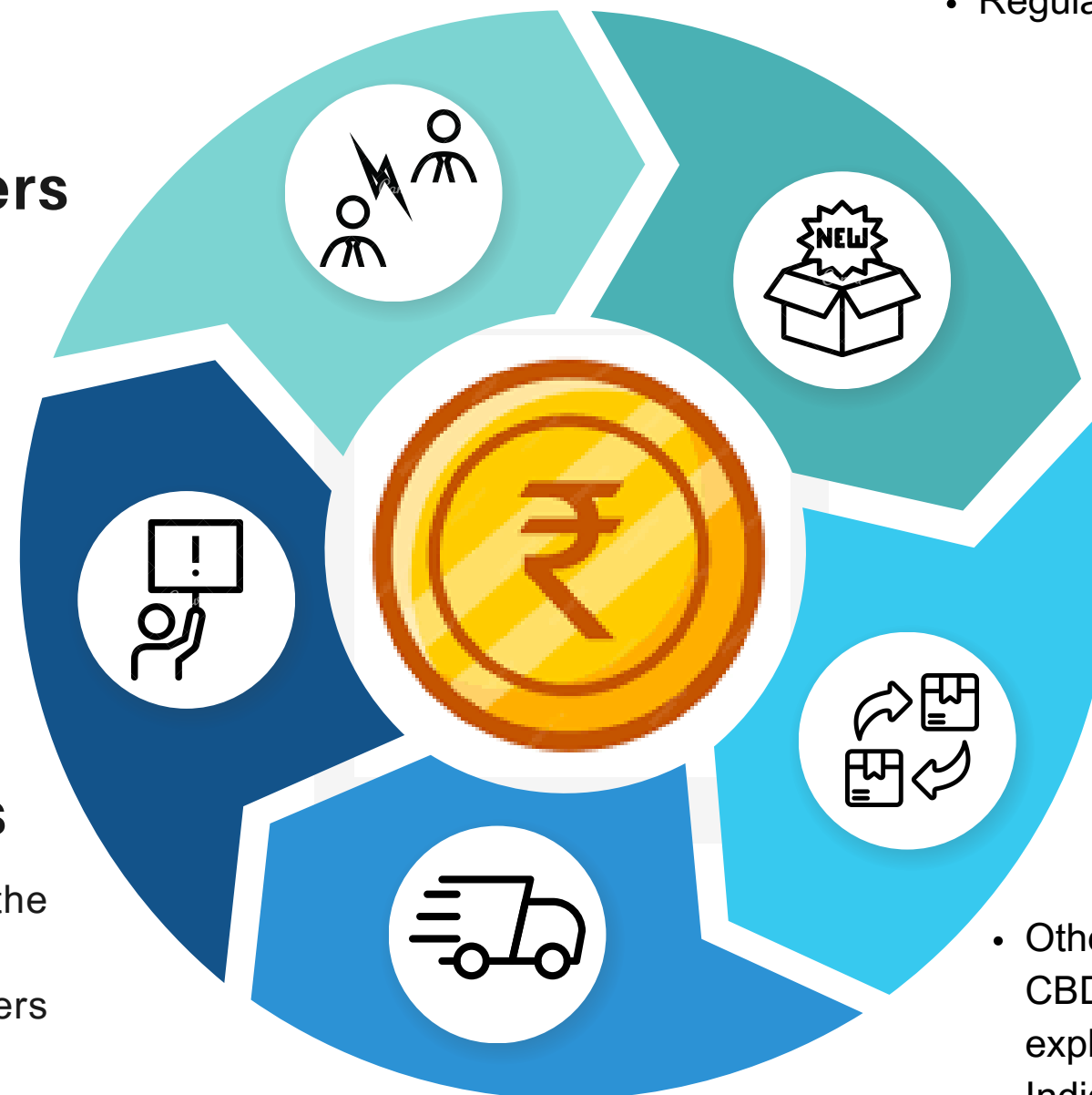
Bargaining Power of Buyers

- High, as consumers demand secure, user-friendly digital transactions.
- Low switching costs for consumers to adopt alternative digital currencies, especially with UPI already adopted.
- Public opinion on the credibility and stability of the CBDC must be evaluated and ensured to be as high as UPI.



Bargaining Power of Suppliers

- Low, as the central authority (RBI) controls the digital currency.
- Limited influence from technology providers due to government regulations.
- There is a dependence on the government's policies and decisions.



Threat of New Products or Services

- High initial investment required for technological infrastructure.
- Regulatory hurdles and compliance standards set by the government.
- Existing trust in traditional financial systems may impede adoption.
- Established partnerships and network effects for current participants.



Threat of Substitute Products or Services

- Low, given the central bank's monopoly on issuing the digital rupee.
- Limited alternatives for digital transactions under government control.
- Challenges in creating substitutes due to regulatory constraints.
- Other countries such as Jamaica and Bahamas have introduced CBDCs. China, the euro area, and UK are at the forefront of exploration alongside India. However, these pose no risks to the Indian system as of now.



Client Strategy: The Client **should** invest in CBDC



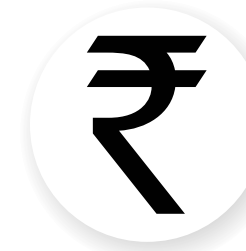
Favourable South and South-East Asian Market

- Many countries in South and South-East Asia either trade in the Indian Rupee or use the INR in some capacity.
- Furthermore, as we have discussed, many of these countries have started using the UPI system. Singapore has invested heavily, as discussed.
- The RBI is invested in providing financial security to the SAARC nations.
- India has good relations with the ASEAN countries. India's G20 focus on making the voices of the Global South heard has reaffirmed its commitment to create sustainable trade relations with these countries.
- It is only a matter of time before the combination of UPI and the INR, which is the root effect of India's CBDC, is rolled out to these countries.



Success of the UPI system & mindset of the Indian customer

- The massive success of the UPI system is clearly demonstrated by the 168% CAGR over FY18 to FY23.
- The value of transactions stood at around Rs 182 lakh crore in 2023, a growth of 44% as compared to the preceding year. This serves to show that the growth of UPI isn't in any way slowing down.
- The average Indian consumer is now aware of the UPI system and leverages it very well. Indian merchants as well, from fruit-sellers to branded shops, have leveraged the system and benefitted from it.
- As the awareness about CBDC increases with further phases of the project, the Indian consumer, already acquainted with the UPI system, is likely to invest in the CBDC and use it for further transactions.



Growth of the Indian Economy and its stand among nations

- The International Monetary Fund (IMF) has predicted that India will become a 5 trillion USD economy by 2027-28.
- India is one of the fastest growing economies in terms of YoY GDP growth rate.
- The growing economy is expected to strengthen the rupee as well, leading to potentially more trade in INR and increasing its value.
- The Indian CBDC, with its cross-border transactions system, will be at the forefront of this revolution.



India's neutral stand and commitment to an alternative to the USD and SWIFT

- In the recent, volatile geopolitical scenario, India has shown its commitment to taking a neutral stand looking at its own benefits.
- From history, India is much less likely to monopolise UPI and use it as a weapon, unlike the USA.
- UPI is way faster than SWIFT.
- An eventual rise of INR as the answer to USD is plausible.

BOTTOM LINE

Considering the 4 primary advantages highlighted here and from the analysis provided already, the client should invest in CBDC and use it for its transactions, as the future profit potential for this is high

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Thank You

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