RBI Intervenes as Rupee Slides to New Low

The rupee recently breached the limit of Rs. 72.5 for a dollar.

- RBI intervened to arrest the free fall of rupee and pumped dollars into the market to stabilize the rupee.
- The Indian rupee has been one of the worst performing major emerging market (EM) currencies in 2018, and the worst in Asia-Pacific.
- Increase in crude oil prices, upcoming state elections, US-China trade war, and domestic inflation are the major reasons for rupee depreciation.

Impact on India

- **Expensive Imports**
  - As the rupee falls, the import of goods become expensive and Indian companies will now have to pay more for the same amount of dollar.
  - The increase in the price of imports like crude oil risks inflation and can cause deplete in forex reserve.
- **Exports Benefitted**
  - Exporters stand to benefit as they get more rupees while converting dollar export earnings into Indian currency. This is expected to boost exports, but it may not influence the overall impact of currency depreciation as India imports more than it exports.
- **Widening Current Account Deficit**
  - As rupee weakens, India's CAD also widens, because weakening currency increases the cost of imports vis-a-vis Exports. Widening of CAD impacts the health of the economy leading to investors pulling out their investment from India. Thus, perpetuating currency fall.

Government Intervention

- RBI can go for sterilization, but RBI has not been intervening strongly to check currency volatility.
- Finance Ministry has also proposed to come up with a Deposit Scheme for Non-Resident Indians.
- RBI can increase interests rates in order to attract FPI's. But, it leads to expensive credit for Indian companies which can impact domestic investment.

Sterilization

It refers to the process by which the RBI takes away money from the banking system to neutralize the fresh money that enters the system.

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