RBI is anchoring expectations on ₹ weakness: Das

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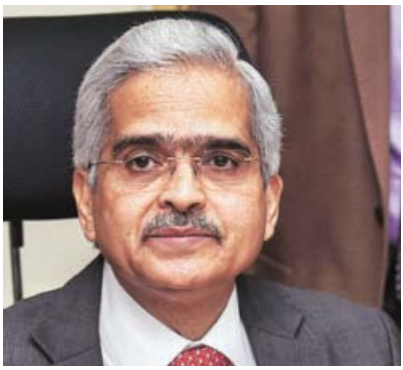

The Reserve Bank of India's (RBI's) interventions in the foreign exchange market are not just aimed at preventing excessive volatility in the rupee but also to anchor expectations around the depreciation of the domestic currency, Governor Shaktikanta Das said on Monday.

The RBI's stated stance, thus far, had been that it intervenes in the foreign exchange market to prevent excessive volatility in the exchange rate.

"As I mentioned, we are there in the market almost on a day-to-day basis and our approach or our intervention in the market is broadly premised on two basic principles. One is to prevent excessive volatility of the Indian rupee— that is the exchange rate," Das said at an event organised by the Fixed Income Money Markets and Derivatives Association of India. "The second point is that it is also built around the theme of anchoring expectations around the depreciation of the rupee. So, it is to prevent excessive volatility and to anchor expectations around the depreciation of the Indian rupee."

The governor's comments come close on the heels of the rupee marking a fresh intraday trading low of 80.13 per US dollar on August 29. But heavy market interventions in the form of dollar sales by the RBI helped the rupee recover by the end of that day's trade.

The rupee has breached the 80 per dollar-mark on three occasions. But interventions by the RBI ensured that the domestic currency recovered from that mark by the end day's trade on all three occasions.

Das noted that the rupee's depreciation has been of a much lower order than many other currencies— in both advanced economies and emerging markets— with the local unit having depreciated 5 per cent, so far, in the current financial year.

The US dollar has strengthened 11 per cent over the same period, he said.

So far in 2022, the rupee has weakened 6.9 per cent versus the dollar. The RBI has heavily intervened in the foreign exchange market through sales of the dollar ever since the Ukraine war broke out in late February.

From $631.53 billion as on February 25, the RBI's headline foreign exchange reserves have fallen to $561.05 billion as on August 26, reflecting a great extent the central bank's defence of the rupee.

In August, the RBI said that reserves worth $573 billion were equivalent to 9.4 months of imports projected for the current financial year. Apart from the Ukraine war, the US Federal Reserve's monetary tightening has been a source of volatility in the markets, Das said.

"The recent commentary from the Fed at Jackson Hole on the future trajectory of the US monetary policy has infused substantial volatility into global financial markets, with large spill-overs and knock-on effects on emerging market economies," a copy of Das' speech uploaded on the RBI's website read.

The Federal Reserve, which has raised rates by 225 basis points, so far, this calendar year, is seen continuing to raise rates to tackle high inflation even at the cost of economic growth. Higher US interest rates typically lead to a stronger dollar and exert pressure on emerging market currencies.

Das reiterated on Monday that India's consumer price inflation shall moderate in the coming months, even though some of the monthly prints may be "bumpy".

"We expect it (inflation) to moderate in the second half of the current year, and then move within the tolerance band in the fourth quarter of this year and then move to even lower levels in the first quarter of the financial year 2023-24," he said.

The RBI's target for CPI inflation is 4 per cent, with the flexibility of 2 per cent on either side. Headline retail inflation was at 6.71 per cent in July; it was the first time in four months that the price gauge printed below 7 per cent.