

EVOLVING SCENE

₹ reverses initial gains on concern over RBI moves

ANJALI KUMARI
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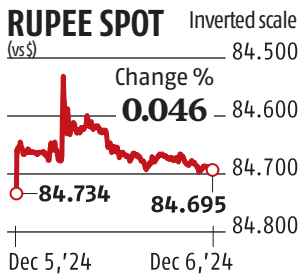
The rupee appreciated sharply on Friday after the Reserve Bank of India (RBI) cut the cash reserve ratio (CRR) by 50 basis points (bps) and hiked interest rates ceiling on fresh FCNR (B) deposits raised by banks.

However, the domestic currency reversed its initial gains due to concerns on potential benefits. If banks significantly increase deposit rates, the challenge lies in deploying these high-cost funds effectively. Consequently, inflows may remain subdued, as bank boards might be hesitant to raise rates to such levels, said dealers.

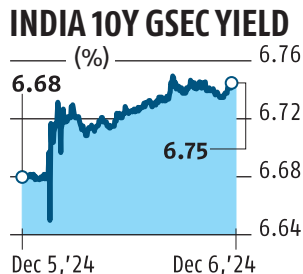
The rupee appreciated up to 84.53 per dollar during the day on Friday, before settling at 84.70. The local currency had settled at 84.73 per dollar on Thursday.

The RBI has raised the cap on FCNR deposit rates for the 1-3 year tenor from AAR + 200 bps to AAR + 400 bps, effective until March 2025, to encourage foreign currency inflows.

“The RBI’s decision to raise



Source Bloomberg



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the FCNR ceiling shows an open acknowledgment that capital flows are not coming to the market as expected. The practical implications are different,” said a treasury head at a private bank.

At the post-monetary policy press conference, deputy governor Michael Patra said that uncertainties, such as the upcoming administration change in the US and the

responses of other countries, make it challenging to provide a precise assessment of rupee at this stage. Patra reiterated that the RBI will take action as required based on evolving circumstances. Currently, he stated, there are no concerns, and the measures announced are aimed at facilitating greater inflows and providing investment opportunities for NRIs.

RBI Governor Shaktikanta Das said foreign exchange reserves remain robust despite recent depletion, much of which is attributed to valuation losses. He said that the reserves are more than adequate, and the RBI remains confident in the ability to manage any potential spillovers effectively.