

RBI counters IMF on intervention in forex market

THE OBSERVED STABILITY of the exchange rate prompted the IMF staff to reclassify India's de facto exchange rate regime, while the de jure classification remained "floating". According to Bloomberg Economics, the rupee weakened about 2% against the dollar between December 2022 and October 2023, after falling about 8% in the previous 12 months.

The RBI is estimated to have intervened to the tune of \$78 billion dollars in those nine months.

The rupee which ruled at ₹81.22 against the US dollar on December 1, 2022, depreciated to a record low of ₹83.4 on December 13, 2023. It closed at ₹83.19 on Tuesday.

The RBI highlighted that forex intervention is only used to curb excessive exchange rate volatility. It also strongly disagreed with staff's assessment that the intervention exceeded levels necessary to address disorderly market conditions, and contributed to the rupee-dollar exchange rate moving within a narrow range since December 2022, the IMF noted in the report.

"The RBI strongly believes that such a view is incorrect as, in their view, it uses data selectively. In their view, staff's assessment is short-term and restricted to the last 6-8 months without any ratio-



nale for the same, and if a longer-term view of 2-5 years is taken, staff's assessment would fail," the fund added in the report.

The Washington-based lender said while forex intervention should be part of the policy toolkit in dealing with external shocks, it should only be used under certain circumstances.

The RBI, however, said the exchange rate's stability in 2023 reflects the strength of macroeconomic fundamentals and improvements in India's external position, particularly significant moderation in the current account deficit (CAD) and revival of capital flows on the back of a comfortable foreign exchange reserves buffer.