Zero tolerance for volatile and bumpy Re movements: RBI chief

Inflation seems to have peaked and is moderating, says Shaktikanta Das

OUR BUREAU
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The RBI has zero tolerance for volatile and bumpy currency movements and the central bank is engaging with the forex market to ensure that the rupee finds its level in line with its fundamentals, Reserve Bank Governor Shaktikanta Das has said.

He said that inflation appears to have peaked and moderating, with the RBI approach being to tackle it squarely while keeping growth sacrifices within manageable limits. The RBI aims to have a soft landing for the economy.

"I would like to reiterate that we have no particular level of the rupee in mind, but we would like to ensure its orderly evolution and we have zero tolerance for volatile and bumpy movements," Das said at Bank of Baroda's annual banking conference.

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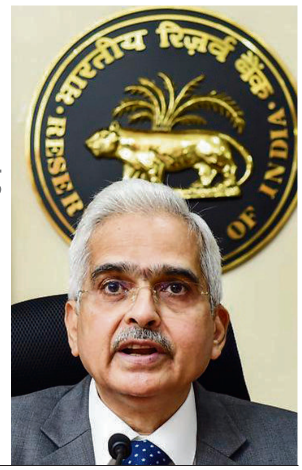
>
> **SHAKTIKANTA DAS**
> Governor, RBI



Rupee, equity gain

As if to support the Governor, the rupee closed nine paise stronger on Friday. The Indian unit closed at 79.86 per dollar against the previous close of 79.95. Even as crude oil price eased and FPIs bought tentatively, the RBI dumped dollars to ensure that the rupee pulls back from the intra-day low of 79.9175.

The equity market also rose for the sixth day in a row with the 30-share BSE Sensex going up 0.70 per cent (or 390.28 points) to close at 56,072.23 points, on Friday. This was the best week for the equity market in 18 months.

The Governor emphasised that it is important to recognise that spillovers from the global monetary policy tightening, the geopolitical situation, the still elevated commodity prices, especially crude oil, and the lingering effects of the pandemic, all coming together, have overwhelmed all countries.

"Even reserve currencies such as the Japanese yen, the euro and the British pound sterling have not been spared. Portfolio funds are selling assets and fleeing to safe havens. Emerging market economies (EMEs) are particularly affected by capital outflows, currency depreciations and reserve drawdowns, complicating macroeconomic management in these countries," Das said.

India less impacted

The RBI chief underscored that the impact of these overwhelming spillovers on India has been relatively modest. "In fact, the Indian rupee is holding up well relative to both Advanced and EME peers. This is because "our underlying fundamentals are strong, resilient and intact. The recovery is gradually strengthening," he said.

"The current account deficit is modest. Inflation is stabilising. The financial sector is well-capitalised and sound. The external debt-GDP ratio is declining. Foreign exchange reserves are adequate," he pointed out.

The Governor observed that recognising the genuine shortfall of supply of forex in the market relative to demand for imports and debt servicing requirements, and portfolio outflows, the RBI has been supplying US dollars to the market to ensure adequate forex liquidity.

"After all, this is the very purpose for which we had accumulated reserves when the capital inflows were strong. And, may I add, you buy an umbrella to use it when it rains!" he said.

Das stressed that a predominant part of the outstanding ECBs (external commercial borrowings) is effectively hedged. "For India, our internal research estimates the optimal hedging ratio (which calculates the proportion of hedging that minimises the variance of the portfolio) at 63 per cent. Taking into account natural hedges and the exposure of public sector companies, the optimal hedge ratio condition is comfortably satisfied in the case of the stock of External Commercial Borrowings in India's external debt," he said.