Foreign outflows, dollar strength drag rupee to all-time low of 84.5

Our Bureau
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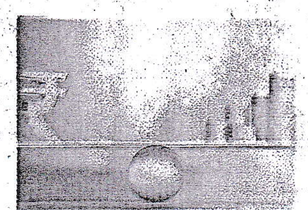
The rupee pierced the crucial 84.50 to the dollar intraday on Friday to touch an all time low, but closed higher *vis-a-vis* previous close, as RBI intervened in the forex market to prop it up.

The rupee dipped to a record low of 84.5075 per dollar intraday as the greenback gained against global currencies and there were foreign portfolio investor (FPI) related outflows from the domestic equity markets. It closed at 84.4450 per dollar, up about 5 paise, as compared with the previous close of 84.4925.

Siddhartha Khemka, Head - Research, Wealth Management, Motilal Oswal Financial Services Ltd., said FIIs continue to be net-sellers, pulling out nearly ₹40,000 crore in the month till date.

Khemka observed that the rupee plunged to a record low, pressured by continuous foreign outflows and renewed strength in the dollar as investors lose hopes of aggressive rate cuts by the US



Federal Reserve. In an article in RBI's latest monthly bulletin, RBI officials emphasised that the central bank's interventions in the foreign exchange (FX) market are intended to ensure that the market is liquid and deep, and functioning in an orderly manner, according to RBI officials.

LIFTING CONFIDENCE

In the article "State of the Economy", the officials said India's FX reserves are used to shore up investors' confidence, ensure that the forex market remains liquid and deep, especially when there are large capital outflows.

Further, the reserves are also meant to mitigate financial stability risks all of which can have real sector implications.

Seeking to address the issue of the rupee's exchange rate policy raised in some quarters, the officials observed that since 2020, the world economy, including India, is grappling with a prolonged period of heightened uncertainty unlike previous crises — the global financial crisis (2008) and the taper tantrum (2013) in which India was either a bystander or there was only 'talk'.

Notwithstanding the overlapping polycrisis being experienced since 2020, reserve depletions, net of valuation losses, are actually comparable across all these events, they said. Furthermore, forex market interventions need to be adjusted for the economy's size to draw a fair conclusion. India's GDP in dollar terms averaged $1,186 billion during 1994-2018 and $3,248 billion during 2019-2024.

Following the aforementioned principle, the officials found that RBI's net interventions to GDP averaged 1.6 per cent during February to October 2022 against 1.5 per cent during the earlier crises, which were of much lower magnitude.