

'RBI may need to resort to old ways to boost forex reserves'

Reuters
Mumbai

The Reserve Bank of India may have to resort to tried and tested measures to shore up its foreign exchange reserves, including encouraging non-resident Indians to deposit more funds, as it looks to stabilise a steadily declining rupee, according to economists.

The rupee has weakened 9.5 per cent so far this year, with the central bank defending the rupee via dollar sales that depleted its forex reserves to \$545 billion from the peak \$642 billion a year ago.

"The central bank should intervene to ensure that a falling currency does not eclipse India's fundamentals," Abheek Barua, chief economist at HDFC Bank, wrote in a note this week.

While there may be some



benefits of a depreciated currency in closing the trade gap, the damage to the capital account in terms of reduced confidence of investors will outweigh it, he added.

FOREX POOL

According to Barua, the central bank may need to think of ways to bulk up its forex reserves, should the pool shrink to near \$500 billion in the coming months.

"More capital is needed at this stage to stabilise the rupee and enable the RBI to re-

plenish its reserves chest," he said. Japanese investment house Nomura said in a note that Asian central banks and governments have, in the past, relied on certain measures to shore up forex reserves and may need to reconsider these as a second line of defence.

In India's case, the RBI had previously tried to halt the pace of capital outflows, ease norms around external commercial borrowings and introduce non-resident deposit schemes, among others, which could be useful to help with currency depreciation pressures, Nomura added.

In July, the RBI had allowed banks to raise foreign currency non-resident deposits at higher costs and permitted foreign investors to buy shorter term local debt as a way to encourage more inflows. Those measures have only helped marginally, said analysts.