

RBI Measures Will Assure That Your Rupee Buys More Dollars

The Reserve Bank of India (RBI) said that the recent steps taken to stem the speculative trade in the rupee are not temporary giving a strong signal that the central bank will not let the currency depreciate.

Subir Gokarn, deputy governor of the RBI told Financial Chronicle, "The measures on the rupee like limiting the long dollar positions against the rupee will continue for sometime. The appreciation of the rupee has been due to the measures that we have taken and also because of the reversal in the capital flows. We are satisfied that the exchange volatility has been addressed to a great extent."

The cut in slice of deposits that banks keep with the RBI is expected to help the rupee to appreciate as the focus of the central bank shifts to fostering growth rather than taming inflation.

The rupee touched 49.85 during trade and finally closed at Rs 50.10 to the dollar at the end of trade on Tuesday.

Jamal Mecklai, currency and treasury consultant said, "The rupee is set to strengthen due to the policy initiatives that the RBI has taken like making it expensive to hold long dollar positions against the rupee. The focus on growth will encourage foreign institutional investors (FIIs) to bring in capital to the domestic market."

The RBI has asked the government to have fiscal prudence and address the structural impediments to economic growth. Several policy initiatives that address the critical bottlenecks of food availability, fiscal capacity, infrastructure investment, land acquisitions and skill formation are in the advanced stage of design, said the central bank.

D Subbarao in a press conference said, "It would be useful if the government provided a medium term path for reducing the fiscal deficit. There is no great concern about external debt being higher than India's foreign exchange reserves."

"We expect the rupee to be the below Rs 50 to a dollar levels for sometime. The CRR cut by the RBI is a clear indication that growth will be the focus of the central bank and the structural issues have to be addressed by the government. Foreign investors come once they buy the India growth story," said a senior official from Standard Chartered.