



Stopping the rupee's free fall

Posted at: 05/07/2018

Highlights

What's happening to the rupee?

- The rupee last week fell to an all-time low of 69.09 against the U.S dollar. The currency has fallen about 7.5% since the beginning of the year, making it the worst-performing currency in Asia.
- Many other emerging market currencies have also witnessed a steep fall in their value against the dollar this year.

Why is it falling?

- The tightening of monetary policy by the U.S. Federal Reserve has caused the price of American debt to fall and yields to rise. This, in turn, has pushed investors to pull money out of India and other emerging market economies in order to invest in the U.S., where they can get higher returns.
- Meanwhile, Indian importers have rushed to purchase oil which is in short supply. This has caused the value of the rupee, which is used to purchase the dollars required to buy oil in the international market, to fall.
- Moreover, investors have also been worried about the government's rising fiscal deficit. A burgeoning fiscal deficit raises the risk of the Reserve Bank of India (RBI) printing rupees to fund the expenses of the government, thus weakening the rupee.

What lies ahead?

- The RBI, which raised interest rates for the first time in more than four years last month, is likely to tighten the supply of money. This may help contain dollar outflows from investors seeking higher yields in the U.S., thus shoring up the value of the rupee. The RBI might also look to intervene directly in the foreign exchange market to prop up the value of the rupee.

Source: [The Hindu](#)