Printed from
THE TIMES OF INDIA

RBI’s intervention in currency market should be limited: IMF

TNN | Aug 5, 2022, 07.47 AM IST

NEW DELHI: The International Monetary Fund (IMF) on Thursday said the RBI’s intervention in the currency market should be limited to addressing disorderly market conditions and exchange rate flexibility should act as the main shock absorber.

IMF said India’s official forex reserves are adequate for precautionary purposes and suggested that accumulation of additional reserves is less warranted. The recommendation in the External Sector Report 2022 comes at a time when the Indian rupee, along with several emerging market currencies, is under pressure. The policy prescription is broadly in line with the RBI’s stated stand. The central bank has dipped into the forex reserve to prevent a steep depreciation, amid repeated rate hikes in developed countries, especially in the US, and the uncertainty caused by geopolitical tensions.

IMF estimated that elevated commodity prices and the war in Ukraine will widen India’s current account deficit (CAD) to 3. 1% of GDP during 2022, compared to 1. 2% last year, but maintained that the country’s external sector assessment, based on several parameters, broadly remained in line with its fundamentals. The multilateral agency also said the CAD is broadly consistent with India’s level of per capita income, favourable growth prospects, demographic trends, and development needs and suggested it would stabilise over medium term.

Congratulations!

“India's external debt liabilities are moderate compared with peers, and short- term rollover risks are limited. The moderate level of foreign liabilities reflects incremental approach to capital account liberalisation, which has focused primarily on attracting FDI,” it said.

As part of the policy prescriptions, it suggested a gradual withdrawal of fiscal and monetary policy stimulus, which has already been initiated and pushing exports. It suggested the government negotiate free trade agreements with main trading partners to boost exports, further liberalise investment regime, and reduce import duties. “Structural reforms could deepen integration in global value chains and attract FDI, hence mitigating external vulnerabilities,” the IMF said.