

## Should the rupee be left to depreciate?

Following days of sustained losses, the rupee has closed at nearly ₹97 to the dollar; while some advocate letting it find its own level, there is a risk in allowing depreciation to continue unchecked, especially as rising import costs of essential goods c

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Continuous days of sustained losses has seen the rupee close at almost ₹97 to the dollar, with no indication that the slide has been arrested. Rising oil prices and the threat of external inflation will put further pressure on the rupee in the days to come. This has prompted calls for intervention to prevent further falls.

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Some writers, like Harvard professor Gita Gopinath, have resisted calls for intervention by the RBI, advocating for letting the rupee find its own level. A weaker rupee would automatically curtail imports and boost exports. Intervention would only obstruct the free flow of market forces. While intervention does have its challenges, there is danger in letting the process of depreciation continue unabated, especially when much of it is being driven by speculative finance. With foreign interest rates bound to rise, capital will flow out faster, leading to stronger negative pressures on the rupee. In such a scenario, it might take inordinately long for the rupee to 'find its level', and the inflationary dangers of a weak rupee will exert even more stresses on a populace already exposed to hardship as a result of worldwide spikes in energy prices. A current account deficit implies more imports than exports, and hence a greater need for foreign currency. If this is adequately met by foreign capital inflow to purchase assets like stocks, the rupee's value relative to the dollar will not change.

If the economy experiences a deficit without sufficient inflow of foreign capital, it faces a problem, with demand for foreign exchange exceeding available supply. Mainstream models dictate that in such a situation, the rupee must depreciate. The weaker rupee makes