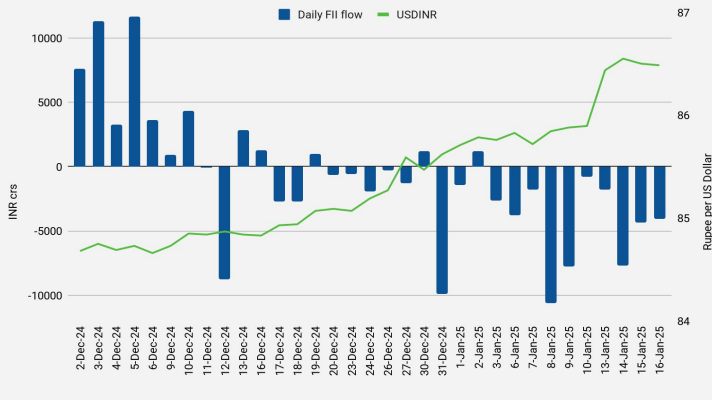


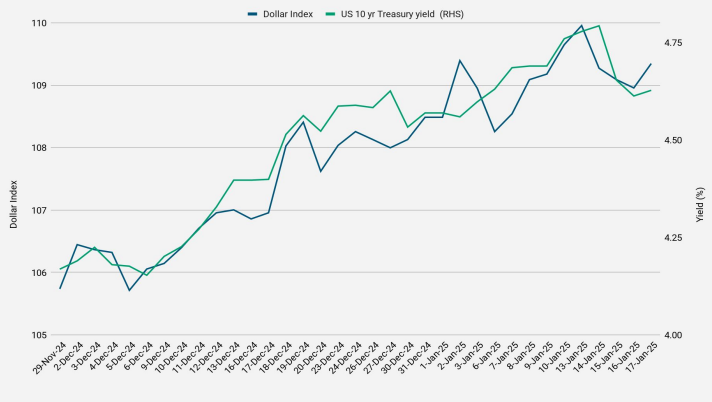
Managing Liquidity and Rupee Volatility: RBI's Strategic Interventions

Rupee Depreciates Due to Consistent FII Outflow



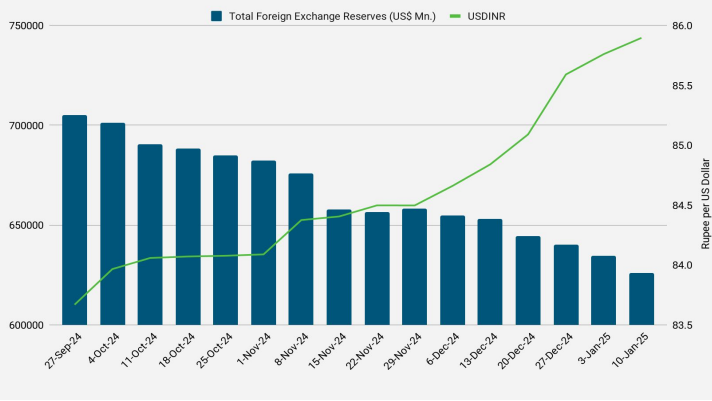
- **FII's pulled out ₹44,396 crore** in January 2025 due to:
 - Strong US Dollar (Dollar Index > 109).
 - Higher US bond yields (10-year yield > 4.6%).
 - Expectations of weak Indian corporate earnings.
- **Foreign investors have been pulling out funds** from Indian equities and bonds, contributing to the rupee's decline.
- **The Indian Rupee weakened, breaching ₹86 per dollar**, marking a historic low.
- Since Donald Trump's re-election in November 2024, the **Dollar Index has steadily strengthened**, impacting emerging market currencies.

Rising US 10-year Treasury yields Strengthens the Dollar Index



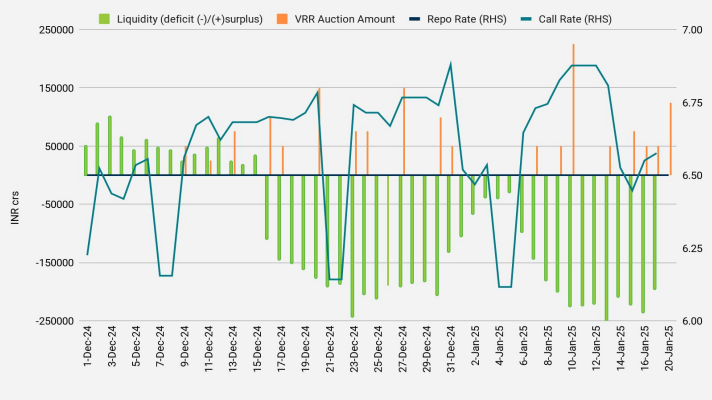
- **The Dollar's rise highlights global confidence in the US economy** amid limited Federal Reserve rate cuts and robust performance.
- **India's forex reserves fell for six consecutive weeks**, reaching \$625.9 billion (10-month low as of January 10, 2025) primarily due to the Reserve Bank of India's efforts to stabilise the rupee through dollar sales.
- **Banking system liquidity has remained in deficit** since mid-December mainly driven by the Reserve Bank of India's (RBI) interventions to stabilize the rupee, which have further widened the liquidity deficit.

Forex Reserves Fall to 10-Month Low Amid RBI's Efforts to Stabilize Rupee



- **Elevated overnight borrowing rates** have put upward pressure on the costs of short-term instruments such as commercial papers, certificates of deposits, and treasury bills.

Liquidity Deficit Persists, Impacting Overnight Rates and Driving RBI's VRR Auctions



To address the liquidity deficit, the RBI has implemented several measures, particularly during periods of heightened stress or currency market volatility. These include:

- ➔ **VRR Auctions:** Regular Variable Rate Repo (VRR) auctions to inject liquidity and manage short-term imbalances.
- ➔ **50 bps CRR Cut:** A 50 basis points reduction in the Cash Reserve Ratio (CRR) to 4% during the December policy meeting to inject additional liquidity into the banking system.
- ➔ **Open Market Operations (OMO):** Purchase of government securities to inject liquidity and stabilize money markets.
- ➔ **Daily VRR Auctions:** The RBI's recent decision to conduct daily VRR auctions ensures tighter control over short-term rates and reaffirms its commitment to aligning overnight rates with the repo rate.