

BONDS TO RESCUE THE RUPEE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign capital, Foreign Trade & BoP

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These are bonds issued by the Reserve Bank of India to non-resident Indians who are interested in investing their money in India. Since these bonds offer higher returns than other similar investments, they can be used as a tool to attract capital during times when other domestic assets fail to attract the interest of foreign investors. Many investors view them as a safe investment as these bonds are issued by the Indian central bank.

The sharp slide in the value of the rupee has led to speculation that the RBI might opt to issue NRI bonds worth \$30-35 billion in order to help attract dollar investment into the country. The rupee's fall of 13.7% since the beginning of the year has been caused by two factors. On the one hand, capital has been moving out of India's capital markets. Foreign portfolio investors pulled out 47,836 crore in the first half of the year, a 10-year high. On the other, Indian exports have been losing demand, while imports of commodities like crude oil have risen significantly. India's current account deficit hit a five-year high in July. Both these factors have combined to cause an increase in the demand for the dollar, thus leading to the fall in the value of the rupee.

NRI bonds could theoretically help increase demand for the rupee and stabilise its value against the dollar. The actual effect of these bonds on the rupee, however, will depend on how attractive they are to NRIs. In 2013, when the rupee witnessed a fall of about 25% in just four months following the U.S. Federal Reserve's decision to taper down its bond-purchase programme, the RBI was able to collect more than \$30 billion worth of foreign capital. NRI bonds were also issued in 1998 and 2000 to help curb the slide of the rupee. While these bonds can provide temporary assistance to the rupee by encouraging capital inflows into the economy, they may not address the fundamental economic issues that are causing the fall of the rupee. Until the RBI can rein in domestic inflation and the government can take steps to boost exports and curb imports, emergency measures like the issuance of NRI bonds can only offer temporary respite to the rupee.

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Last week Ram Kadam, a BJP MLA from Maharashtra, told the men in an audience that if they were interested in women who didn't reciprocate the feeling,

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