

(Please do not write anything except the question number in this space)

कृपया इस स्थान में प्रश्न संख्या के अतिरिक्त कुछ न लिखें।

UPSC

Answer Questions in NOT MORE THAN the Word Limit specified for each in the Parenthesis.
Content of the Question is more important than length.
(Specimen Answer Booklet - For Practice Purpose Only)

उम्मीदवारों को इस हाशिए में नहीं लिखना चाहिए
Candidates must not write on this margin

3) Reserve Bank of India's latest policy on interest rate was driven by external factors. Do you agree with this view? Comment.

↳ The Reserve Bank of India raised its separate border liquidity Adjustment Facility (LAF). It is the 5th consecutive hike in the RBI's main Policy Rate.

↳ latest policy on interest rate driven by external factors.

↳ Data obtained from the Reserve Bank of India reveal that net foreign Investment to India has turned negative of \$1.4 billion net outflow in 4th Quarter of 2021-22.

↳ It reflected in the gradual running down of RBI's forex Reserves.

↳ Possibility

↳ It could be that the Reserve Bank of India has used its forex kit to keep the Indian currency from depreciating fast in the face of decline in net capital inflows.

↳ The withdrawal of monetary accommodation by US Fed - It has raised its target for the federal funds rate in the recent times.

↳ Plotting the all money rate in the recent times India along with the US federal funds rate.

↳ The rise in federal funds rate makes investment in US securities more attractive than India.

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↳ This consequently may cause the rupee to depreciate further.

↳ An ~~Fixed Exchange Rate~~ Monetary Policy Autonomy

↳ An economy cannot enjoy monetary policy autonomy under fixed exchange rate regime while allowing for free cross border capital flows.

↳ RBI's stated policy is that it does not target any particular level or band of rupee dollar exchange rate, so as to retain the monetary policy autonomy.

↳ Conclusion

Reserve Bank of India suggest that the Current Policy hike is driven by monetary policy considerations to control Inflation.

In Reality, the rate hike could be meant to arrest excessive capital outflow and protect the rupee against the dollar.