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EDITORIAL ANALYSIS

Defending the Rupee Without Burning Reserves

BUSINESS STANDARD

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Defending the Rupee Without Burning Reserves

Business Standard 15 June 2026 GS3

Source: ujiyari.com — Free UPSC & State PCS Current Affairs

INTERVIEW ANGLE

"When the rupee falls, there is pressure on the RBI to "defend" it by selling dollars. But reserves are finite. When should a central bank let the currency find its level, and when should it intervene?"

Source: Original editorial ↗ Business Standard

Every fact web-verified against primary sources HOW

WHY THIS MATTERS NOW

As the **rupee** comes under depreciation pressure, the **RBI** faces the recurring question of how far to spend **foreign exchange reserves** defending it. For an aspirant, this is a GS3 case on **exchange rate management, reserve adequacy and central banking trade-offs**.

THE CRUX IN 60 WORDS

When the rupee falls, the **RBI** can spend **reserves** to defend it (short-term stability) or let it adjust to fundamentals (preserving firepower). Heavy defence depletes the buffer and may only delay adjustment. The RBI's stated approach: **curb volatility, not target a level**. The balance is to smooth disorder while preserving reserves for genuine external shocks.

THE ISSUE, DECODED

CONCEPT	WHAT IT MEANS	WHY IT MATTERS
Forex reserves	The dollar buffer the RBI holds	The finite weapon being spent
Intervention	Selling dollars to support the rupee	The defence with a long-term cost
Volatility vs level	Smoothing moves vs fixing a rate	The RBI's stated philosophy
Import cover	Months of imports reserves can fund	A measure of reserve adequacy

THE ANALYSIS: STABILITY VERSUS FIREPOWER

1. **The short-term gain.** Selling dollars can stabilise the rupee for now.
2. **The long-term cost.** Reserves are a buffer against shocks; spending them weakens it.
3. **Fundamentals win eventually.** Defending a level fundamentals reject only delays adjustment.
4. **The RBI's stance.** Curb excessive volatility, allow the rupee to reflect fundamentals.

DATA AND INSTITUTIONS VAULT

> *the* **Reserve Bank of India (RBI)***, which manages the exchange rate and holds the country's* **foreign exchange reserves**. **The concept: managed float***, curbing volatility rather than fixing a level;* **import cover***; reserve adequacy.* **The drivers:** *the* **current account***, capital flows, global interest-rate differentials, and the dollar's strength.* **Concept:** *imported inflation; the impossible trinity; sterilised intervention.*

THE DEBATE

Argument for restraint: Spending reserves to hold a level fundamentals reject only delays adjustment and depletes the buffer; smooth volatility, preserve firepower.

Argument for active defence: A sharply falling rupee imports inflation and unsettles markets; defending stability is justified even at the cost of some reserves.

HOW TO THINK ABOUT IT

Frame the answer around **short-term stability versus long-term reserve adequacy**, and the RBI's **volatility-not-level** philosophy. Concede the inflation and confidence risks of a sharp fall, then argue for intervening against disorder, not against fundamentals, while addressing the underlying drivers.

THE DIAGRAM IN WORDS

Picture a dam holding back a rising river. Releasing water in controlled bursts prevents a sudden flood, that is smoothing volatility. But trying to hold the river at an artificially low level by never releasing water eventually overwhelms the dam. The reserves are the dam's capacity; spend them wisely.

PYQ LINKAGE

UPSC has asked about exchange rate management, forex reserves and the RBI's monetary policy. This editorial connects those to the trade-off between defending the rupee and preserving reserves.

THE ONE-LINE TAKEAWAY

The RBI should smooth the rupee's volatility without burning reserves on a defence fundamentals will defeat; preserving firepower for genuine shocks is the wiser course.

Source: Defending the Rupee Without Burning Reserves — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

• **KEY ARGUMENTS AT A GLANCE**

As the rupee comes under depreciation pressure, the RBI faces the recurring dilemma of how far to spend its foreign exchange reserves defending the currency, a choice between short-term stability and preserving the long-term firepower and import cover that reserves provide.

✓ **SUPPORTING**

- Heavy intervention to defend the rupee can stabilise it in the short run but depletes reserves and may only delay an adjustment driven by fundamentals.

- The RBI's stated approach is to curb excessive volatility rather than target a level, allowing the rupee to reflect fundamentals while smoothing sharp moves.
- Reserves serve as a buffer against external shocks and underpin confidence, so spending them has a long-term cost beyond the immediate defence.

⚠ **COUNTER**

Some argue that a sharply falling rupee imports inflation and unsettles markets, so active defence to maintain stability is justified even at the cost of reserves.

→ **WAY FORWARD**

Intervene to smooth volatility rather than defend a level, preserve reserve adequacy for genuine shocks, address the fundamentals driving depreciation, and communicate policy clearly to anchor expectations.

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MAINS ANSWER FRAMEWORK

QUESTION

"A central bank defending its currency must balance short-term stability against long-term reserve adequacy." Examine in the context of RBI's exchange rate management. (250 words)

INTRODUCTION

A falling currency tempts a central bank to fight it. But reserves are a finite weapon, and the question is not only whether to defend the rupee, but how much firepower is worth spending.

BODY

When the rupee comes under depreciation pressure, the Reserve Bank of India faces a classic dilemma. It can sell dollars from its foreign exchange reserves to support the currency, achieving short-term stability, or it can let the rupee adjust toward the level its fundamentals imply.
Heavy intervention has real costs. Reserves are not just a number; they are a buffer against external shocks, an underpinning of market confidence, and a measure of import cover.

Spending them to hold a level that fundamentals do not support often only delays the adjustment while depleting the buffer, leaving the economy more exposed if a genuine shock arrives. This is why the RBI's stated philosophy is to curb excessive volatility rather than to target a particular exchange rate: it smooths disorderly moves while allowing the rupee to reflect underlying conditions.

The counter-argument has weight. A sharply depreciating rupee raises the cost of imports, especially energy, feeding inflation, and can unsettle markets and capital flows, so some defence to prevent disorder is justified.

The balance, then, is to intervene against volatility but not against fundamentals, to preserve reserve adequacy for the shocks that matter, to address the underlying drivers of depreciation, the trade balance, capital flows, global rate differentials, and to communicate clearly so expectations stay anchored. Defending the rupee is sometimes necessary; burning reserves to defend the indefensible is not.

CONCLUSION

The RBI's task is to smooth volatility without exhausting reserves on a defence fundamentals will defeat. Preserving firepower for genuine shocks is the wiser course.

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