FM Finance Matters
News, Views & Perspectives on Financial Policies & Institutions

Why Should We Care About Development Finance? ...because it's our money!

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To Stabilise the Rupee, Fix the Economy First

The sharp fall of the rupee is being blamed on recent tensions in West Asia, but the problem runs much deeper. While the government has urged people to reduce gold purchases to save foreign exchange, this treats only the symptom, not the disease. The rupee's weakness reflects growing concerns about India's domestic economy, where sluggish wage growth, weak consumption, and declining investor confidence have created a fragile economic environment.

Over the past few years, real wages have grown slowly, reducing the purchasing power of ordinary households. At the same time, consumption growth has weakened and the share of household spending in the economy has fallen. When people earn less and spend less, businesses face lower demand for their products. As a result, companies become reluctant to invest in expanding production, creating a cycle of slow growth and limited job creation.

Faced with uncertainty, households are increasingly putting their savings into gold and cash rather than productive investments. This shift reflects a lack of confidence in future economic prospects. Weak domestic demand discourages private investment, while capital flows out in search of better returns elsewhere. The resulting pressure on the rupee cannot be solved simply by accumulating foreign exchange reserves or introducing new schemes to attract foreign currency deposits.

What India needs is a stronger domestic economy driven by rising incomes, higher employment, and increased public investment. Government spending on housing, infrastructure, renewable energy, and job creation can boost demand and encourage private investment. Instead of discouraging gold ownership, policymakers should create secure financial instruments that channel household savings into productive sectors. A stable rupee will ultimately depend not on emergency measures, but on building an economy that generates confidence, investment, and sustainable growth.

- Team CFA

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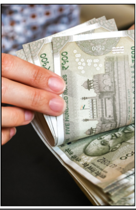

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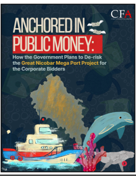

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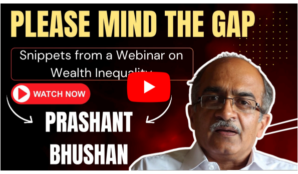

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