



Bundles of 500 and 100 rupee banknotes at a currency exchange in New Delhi in August. *Photographer: Prakash Singh/Bloomberg*

Business

Inside India's Secretive Strategy to Stop the Rupee's Plunge

The central bank's intervention has become more unpredictable, discouraging speculative trades but also risking a deeper slump in the rupee.



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India's central bank delivers the secret instructions to dedicated rupee trader in soundproof rooms.

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Interventions work — suggest volatility is likely to remain elevated, with trading punctuated by sudden swings as the central bank steps in and out of the market.

RBI Governor Sanjay Malhotra is seeking to target speculation in the chronically weak currency while avoiding the heavy-handed intervention seen last year under his predecessor. It's a difficult balance to get right. Too little and one-way bets can escalate, deepening the slump. Too much and the resulting rupee buying can drain liquidity from the banking system, weighing on economic growth, as well as draw down valuable foreign reserves.

“Malhotra seems willing to stick to a leaning against the wind approach,” said Eswar Prasad, former head of the IMF’s China division, who is now an economics professor at Cornell University. “Not fully resisting market pressures to push the currency’s value in a particular direction but intervening at the margin to limit short-run exchange rate volatility and overshooting.”

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Sanjay Malhotra during a RBI news conference in Mumbai, in February, when he cut interest rates for the first time in almost five years. *Photographer: Dhiraj Singh/Bloomberg*

Pressure is rising. The rupee has tumbled 4.9% against the dollar in 2025, ranking behind only the Turkish lira and Argentina's peso among 31 major currencies in terms of declines. And this is in a year when a gauge of the dollar's strength has fallen more than 7%.

A widening trade deficit, punitive 50% US tariffs on Indian goods and foreign outflows are all weighing on the rupee. A failure to nail down a deal with Washington has deepened pressure on the currency.

The central bank was historically guarded about discussing its currency market interventions, but officials began acknowledging such actions more openly in the past few years. Malhotra has spoken a number of times about the need for intervention to manage volatility. An RBI spokesperson didn't reply to an email seeking comment.

India's Rupee Has Fallen to a Record Low Against the Dollar

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Source: Bloomberg

The decision over whether and how to intervene takes place every morning before markets open in the RBI's headquarters in south Mumbai, where the Financial Markets Committee comprising officials from different departments meets to discuss various pressures on the exchange rate. If necessary they gather multiple times a day, according to a former central bank official. The governor makes the final call.

Once the nod is given, the call typically goes through to senior dealers at large state-run banks, who man special desks dedicated to carrying out the RBI's instructions. These are located in sealed rooms equipped with separate, unrecorded phone lines.

The dealers aren't given any warning by the central bank, which also doesn't reveal the depth of the order book. To make its actions less predictable, the central bank sometimes avoids round figures and abruptly stops after selling an amount such as \$217 million. The RBI may also quickly change strategy if officials think traders have worked out a pattern of intervention.

Participating banks, which can include private sector lenders, are prohibited from running proprietary positions during intervention. They are only allowed to close their existing positions and manage client flows. When a senior deal-

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That prompted successive RBI governors to build up India's foreign reserves, which stood at \$686 billion – including some \$557 billion in currency holding and \$106 billion in gold – as of Nov. 28. That's among the largest in the world and enough to cover about 11 months of imports.

"India has gone through episodes in the past when the currency underwent significant depreciation amid lower reserves," said R. Gurumurthy, a former central bank official, who handled the currency desk. He declined to discuss specifics about how its operations work. "Overall, the approach toward large intervention has evolved in line with the growing reserves – it ensures confidence."

The decision by Malhotra's predecessor Shaktikanta Das to clamp down on price swings in the rupee prompted the IMF in December 2023 to reclassify India's de-facto exchange rate regime from "floating" to "stabilized" – essentially a tightly managed float – triggering criticism from the RBI.

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Shaktikanta Das at the RBI in December 2024. Photographer: Dhiraj Singh/Bloomberg

Under Malhotra, who has a master's degree in public policy from Princeton University and took over the reins a year ago, the central bank has taken a more idiosyncratic approach to intervention. The shift toward bigger two-way movements drew praise from the IMF, which loosened its classification on India's currency management to "crawl-like" last month.

The unpredictability also helps minimize speculation in the market, according to G. Mahalingam, a former executive director at the RBI who handled the financial markets department.

"Yes, there will be speculators in the market, but speculators are going to come into the market with an apprehension that they're going to get hurt very badly because they don't know how to predict the RBI," Mahalingam said, without going into any details of how the central bank conducts interventions.

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intervention typically requires the RBI to step in both in its domestic market as well as overseas. Internationally, the rupee is largely traded through non-deliverable forwards (NDFs) – derivatives contracts that lock in exchange rates and are settled in dollars. The RBI intervenes via the Bank for International Settlements with a few large banks acting as counterparties in round-the-clock markets operating through Singapore, Dubai and London.

Successive interventions this year have helped reduce foreign currency assets by about \$38 billion since this year's high in June through Nov. 28 and drained cash from the banking system. On Friday, Malhotra said the RBI will buy bonds and conduct a foreign-exchange swap to inject the equivalent of \$16 billion to ease liquidity.

The central bank appears to be becoming more tolerant of depreciation. The RBI net sold an average of \$1.2 billion of spot foreign currency reserves per week in the four weeks through Nov. 21, compared with weekly drainage of \$3.5 billion in the preceding four weeks, Nomura Holdings Inc. estimated in a note dated Dec. 3.

“Our stated policy always has been that we don't target any price levels or any bands, we allow the market to determine the prices,” Malhotra said at a press briefing Friday after the central bank cut its benchmark interest rate for the first time in six months. “Our effort has always been to reduce any abnormal or excessive volatility and that is what we will continue to endeavor.”

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The RBI headquarters building in Mumbai. *Photographer: Dhiraj Singh/Bloomberg*

The RBI may have limited room for further intervention after increasing dollar sales in its forward book. Such positions mean the RBI has pledged to sell dollars in the future and would need to source them for delivery when they mature. Its net short dollar book was around \$64 billion as of October.

Officials may also be holding fire in case they need to take stronger action.

“I’m pretty sure the RBI has some lines drawn where they’ll really come in like gangbusters,” said Jamal Mecklai, managing director of Mecklai Financial Services Pvt and a four-decade veteran of India’s currency markets. “They are constrained by liquidity issues and reserve balance issues.”

The RBI might get a break soon if India’s efforts to secure a deal with the US bear fruit. A team of negotiators from the Trump administration led by Deputy US Trade Representative Rick Switzer plans to travel to India this week to continue talks on a trade agreement.

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