Q24

Which one of the following activities of the Reserve Bank of India is considered to be part of 'sterilization'? (a) Conducting 'Open Market Operations' (b) Oversight of settlement and payment systems (c) Debt and cash management for the Central and State Governments (d) Regulating the functions of Non- banking Financial Institutions Official key: A.

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Explanation

(a) Official key

Open Market Operations. Selling/buying G-secs to mop up or inject the rupees created by forex intervention - sterilisation.

(b)

Oversight of payment systems. A regulatory function, not sterilisation.

(c)

Debt and cash management for governments. Fiscal agency, not sterilisation.

(d)

Regulating NBFCs. Supervision, not sterilisation.

Summary

Official key is (a). Sterilisation is offsetting the domestic-money effect of forex intervention. RBI does it mainly through open market operations (and similar liquidity tools). Payment-system oversight, government cash management and NBFC regulation are other RBI jobs.

Related possible facts

These can be asked in a future Prelims paper.

Sterilisation
Neutralising the rupee impact of buying/selling dollars.

OMO
Outright or repo operations in government securities.