Reflections on falling Indian rupee

By **KP SHASHIDHARAN**

Every Indian is impacted, directly or indirectly, by an unprecedented 16 percent depreciation of the rupee against the American currency in the last three months and trading at the lowest rate of Rs 68.80 or so against the dollar. The fall of the rupee has resulted in an outflow of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII). While the Government and the Reserve Bank of India (RBI) have been striving hard to fix the root cause of the adverse Current Account Deficit (CAD) and arrest the rupee fall, doomsayers continue to predict that the worst is yet to come. This reminds us of the famous lines of poet T.S. Eliot in *Waste Land;* "London Bridge is falling down, falling down, falling down". The doomsayers also argue that the rupee may further fall to Rs 70 against the dollar.

How does the Government take on the challenge to restore confidence among FD and FI investors as well as in the domestic investing community? Can we see any emerging silver lining in the dark cloud? We cannot forget altogether our hitherto incredible growth story. The Indian economy is undoubtedly still one of the G-20 major economies. India is a member of BRICS and remains the tenth largest in the world by nominal GDP and the third largest by purchasing power parity (PPP). IMF statistics demonstrate that India is the 19th largest exporter and the 10th largest importer in the world.

Our exports registered an 11.64% growth rate in July 2013 touching $25.83 billion and are expected to have double digit growth due to enhanced demand for Indian goods from African and Asian markets. The Government has initiated various steps to boost exports, including a hike in the rate of interest subsidy. The Government is also thinking of reducing export duty on iron ore. The Current Account Deficit of 4.8% of the GDP in 2012-13 was mainly due to the import of gold and petroleum products. The gold imports have been controlled now and were reduced to 95% in August 2013 compared to the preceding month. There are good prospects of better agricultural production due to a good monsoon. Russia has lifted an eight-month-old ban on the import of Indian rice and peanuts effective from September 2013. Besides, the Government is taking steps to reduce the CAD from $88 billion or 4.8% of the GDP last fiscal to $70 billion or 3.8% of the GDP in 2013-14.

Red-tape and regulatory hurdles and the "last mile" bottlenecks in fuel supply, environment and forest clearances and land acquisition for pending development projects in key economic sectors such as those of coal, power, steel and roads are expected to be removed. The Government is considering proposals for raising the cap on foreign investment, reducing taxes on such investments; making it easier for Indian companies to borrow abroad; and easing curbs on foreign investment in sensitive sectors like those of defence, telecommunications and the print and broadcast media from 26 percent to 49 percent.

Financial bodies such as the Indian Railway Finance Corporation, the Power Finance Corporation and Indian Infrastructure Finance Company Limited were permitted to raise $4 billion collectively through quasi-sovereign bonds for the infrastructure sector. The PSU oil companies were permitted to raise additional external commercial borrowings (ECBs) to the tune of $4 billion. The FDI ceiling for Asset Reconstruction Companies has been increased from 49% to 74% subject to the condition that no sponsor may hold more than 50% of the shareholding in an ARC either by way of FDI or by routing through an FII. The RBI clarified this in its notification.

According to the Organization for Economic Cooperation and Development (OECD).India's growth prospects are still weak. Asian Business Cycle Indicators (ABCI) finds that the significant factor responsible for the downside risk is facing Southeast Asia and China and Indian financial markets are in turmoil, triggered by the prospects of tapering of quantitative easing (QE) policy in the United States. Besides, global oil prices will remain volatile due to political disturbance in the Middle East. In order to bring investor confidence in this context it is important to note the Indian Finance Minister's 10-point prescription; controlling the CAD, increasing the foreign exchange reserves, reviving the investment cycle, quickening the capex programme of PSUs, capitalizing the public sector banks, maximizing agricultural production by reaping the benefits of a good monsoon, encouraging manufacturing and exports and the resolution of an impasse in the coal and iron sectors by expeditious environmental and land clearances. With an effective monetary policy and the implementation of these measures, there should be a discernible appreciation in the exchange rate of the Indian rupee. ■

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