Open House Discussion on Rupee Volatility

Friday, 31st August 2018, at PHD Chamber, New Delhi

FOREX and FEMA Committee of PHD Chamber of Commerce and Industry has organized an Open House Discussion on Rupee Volatility, 31st August, 2018, at PHD Chamber, New Delhi. The aim of the open house discussion was to discuss the implications of external factors leading to rupee volatility and its impact on the Indian economy. The eminent speakers at the Open House Discussion were Shri D K Aggarwal, Vice President, PHD Chamber, Shri Shyam Podar, Chairman, FOREX and FEMA Committee, PHD Chamber, Shri Ambuj Jain, Co-Chairman, FOREX and FEMA Committee, PHD Chamber, Shri Ram A Poddar, Co-Chairman, Industry Affairs Committee, PHD Chamber and Dr. S P Sharma, Chief Economist, PHD Chamber.

Glimpse of the Open House Discussion on Rupee Volatility

Photo caption from left to right: Dr S P Sharma, Chief Economist, PHD Chamber, Shri Shyam Poddar, Chairman, FOREX and

FEMA Committee, PHD Chamber, Shri DK Aggarwal, Vice President, PHD Chamber, Shri Ambuj Jain, Co-Chairman, FOREX and FEMA Committee, PHD Chamber, Shri Ram A Poddar, Co-Chairman, Industry Affairs Committee, PHD Chamber.

While welcoming the eminent speakers and the delegates, **Shri D K Aggarwal, Vice President, PHD Chamber,** stated that, at international level, Argentina's currency Peso is down by 53.9% in current year and rate of interest is 60% (20% increase in August 2018 only) in the country, rate of inflation is 30%; in Turkey, currency has depreciated by 43.5%; Brazilian Real depreciated by 20.2%; Russian Ruble depreciated by 15.3%; and Indian Rupee is down by around 10%. Currencies of many countries have been hit internationally, and only the Dollar is appreciating. He mentioned that in a developing economy, inflation of 5-7% is accepted, and in this case the currency will depreciate as its natural course of action. So, it is a pure calculation of inflation which is working behind depreciation of Rupee, as it is one of the most important determinants. He was of opinion that REER is important risk indicator for industry for hedging. He opined that, as compared to current scenario, Rupee volatility was very high in 2013. He mentioned that currently Rupee is depreciating because of external factors, such as international market volatility, whose effects are being felt in India and to some extend internal factors are also responsible, such as rising prices of crude oil and given India is a net importer of crude oil, which India is importing inflation and with more risk of inflation, depreciation in currency happens; also, carry trade is another internal factor causing depreciation of Rupee.

Shri Shyam Poddar, Chairman, FOREX and FEMA Committee, PHD Chamber, mentioned that though Indian economy is suffering from external factors' spill-over effects, which we have been witnessing from 1997 till today, but still Rupee has always remained steady, because of RBI's controlled policies. He stated that Rupee has depreciated 10.7% year to date and factors behind this has been ban of LOU/LUT ban by RBI, which hit the market and rupee started depreciating, followed by the US and China trade war, crude oil price spike and price escalation in the Turkey. He was of opinion that the biggest irony of the country is that whenever the crude oil drops, oil companies in India never drops the prices, since there is no benchmark to check oil companies. He further mentioned that, continuous fed interest hike is putting fuel in the fire and meanwhile Turkey's currency has depreciated more than 75%. He was of opinion that this is the short term volatility, which is erupting the panic in the market. He mentioned that India is dependent on the crude oil import and that is why other currencies are not so much impacted as compared to Indian Rupee. He was of opinion that domestic factors behind rupee depreciation are higher trade deficit on back of higher crude oil prices, working capital cycle shortening, which has put the pressure on spot rupee, among others and that all these factors have brought the uncertainty in inflation. He also mentioned that, people should protect their benchmark costing, instead of hedging at the time of currency volatility. He was of opinion that RBI is intervening very mildly and not aggressively because RBI will never use the reserves to fulfill the demand of arbitragers. He opinionated that the theory of benefit to exporters in case of depreciation of currency is a abrupt theory, rather in this scenario exporters and importers are both the sufferers. He suggested that let the market settle itself with the matching of forces of demand and supply and is the mismatching happens in a big way, RBI will definitely intervene.

Shri Ambuj Jain, Co-Chairman, FOREX and FEMA Committee, PHD Chamber, mentioned that many other international currencies have depreciated, in which India is on 6th place in the list, but still the SENSEX is up by more than 10 percent and DOW is also at all time highs, so risk aversion is not the reason affecting India. He was of opinion that political leadership at global level is making a huge difference at international level currency depreciations. He further stated that, Rupee has depreciated every time before the elections in India, which has been the trend in the past many years. He opinionated that the crude oil prices are expected to increase further and so does the current account deficit, which is very closely associated with rupee depreciation.

Shri Ram A Poddar, Co-Chairman, Industry Affairs Committee, PHD Chamber, mentioned that increasing crude oil prices have not been the reason for rupee depreciation, rather the reasons are slowing down of the exports, increase in current account deficit and some external factors and uncertainties, which are sentimentally affecting the rupee, which is relatively a weaker currency. He further mentioned that India's neighboring countries are relatively not much affected as compared to India because, on which he opinionated that our Government is deliberately allowing the currency to fall to encourage lager exports. He was of opinion that given the elections in the US, forthcoming elections in India and rising trade war between China and the US, India and its people are living in a period of uncertainties for the next one year and they have to cover themselves from the effected of these events.

Dr S P Sharma, Chief Economist, PHD Chamber mentioned that the objective of the Open House Discussion is to formulate meaningful agenda for measures to control Rupee volatility and bring rupee stability going forward. He opinionated that Rupee has been volatile due to three main reasons – first is that the trade deficit has almost doubled in the last 10 years, which is not in sync with the rising economy because the rise in exports are not in sync with the rising imports. Second is decelerating ratio between forex reserves, which is around USD 400 billion and GDP, which is around USD2.8 trillion; this ratio was 22% of GDP in 2007, 16% in 2014-15 and currently it is 14-15%. He stated that while the GDP is rising magnificently, the forex are not increasing in sync with it. Third reason as mentioned by Dr. Sharma is that India is a country of liabilities, as the country's net investment flows are in negative trajectory, coupled with rising inflation and rising crude oil prices.

Glimpses of the Open House Discussion on Rupee Volatility

From left to right: Shri Shyam Poddar, Chairman, FOREX and FEMA Committee, PHD Chamber and Shri D K Aggarwal, Vice President, PHD Chamber

Glimpse of Open House Discussion on Rupee Volatility

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Eminent Dignitaries at Open House Discussion on Rupee Volatility

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Warm regards,

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