# Rupee depreciation – Comparative analysis

## What is the issue?

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The rupee's relentless slide in recent weeks has led to comparisons with the situation that prevailed in 2013.

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## What was the 2013 episode?

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- Indian economy was facing a downfall, where it witnessed a record low of rupee value of 68.80.
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- Oil prices had sky-rocketed to $140/barrel (it is less than $ 90 today).
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- India imported 80% of the oil used in the country, and with the depreciated rupee, the subsidy burden of importing crude oil loomed higher.
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- The pressure on Indian rupee and on import bill of crude oil was interdependent.
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- The price rise was also caused by the US Fed's 'taper tantrum', which signalled the winding up of quantitative easing (QE) and the hardening of policy rates.
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- Quantitative easing was followed by US, post 2008 financial crisis, to increase money supply in the economy in order to further increase lending by commercial banks and spending by consumers.
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- During 2013, US followed Tapering, which is a system of slowly reducing the amount of money the Fed puts into the economy, which gradually reduces the economy's reliance on that money.
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- This created an adverse impact on FPI investments, wherein there was a reversal of existing stocks as well as a slowdown in fresh flows as less liquidity was available.

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- Hardening of policy rates in the US also attracted portfolio investments from emerging markets.
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- There were also severe demand-supply mismatches of oil at the global level.
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- The situation in India became worse and was very well compared with the historical economic crisis of 1991.
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## How does India stand today?

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- The recent depreciation of rupee is getting compared with the scenario that was prevailed in 2013 and also call for similar solutions.
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- But the Indian situation is actually quite different in 2018.
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- The position in 2018 is far more comfortable in almost all the parameters except foreign portfolio investment (FPI).
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**Economic Indicators – Then vs now**

| | Financial year (%) | 2013 | 2018 |
|---|---|---|---|
| GDP growth | Q1 | 6.5 | 8.2 |
| IIP growth | August | 4.6 | 6.6 (July) |
| CPI | August | 10.5 | 3.7 |
| WPI | August (All, agri, fuel, manufactured) | 6.2 | 4.5 |
| Repo | October | 7.75 | 6.5 |
| 10-GSec | October | 8.57 | 8.08 |
| **External account** | | | |
| CAD | Q1 (% GDP) | -4.75 | -2.4 |
| Forex reserves | March end to Sept end ($ billion) | 292 to 276 | 424 to 400 |
| Import cover | Based on Sept end reserves months and previous year imports | 5.8 | 10.4 |
| FDI | April-July ($ billion) | 8.64 | 16.1 |
| FPI | April-Sept ($ billion) | -5 | -11.2 |

Source: RBI, MOSPI, CMIE

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- FPI flows have been negative in both the episodes, and this has got to do more with the Federal Reserve driving such actions.
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- The continuous increase in interest rates by the Federal Reserve is the main reason for the FPI flows to turn negative now.
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- So the RBI was expected to increase rates this time to even out the interest rate differential between the two regimes.
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- The other parameters like the CAD, import cover, FDI and other indices look healthier than before which gives a great deal of confidence to the policy makers.
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### What are the concerns?

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- Oil factor - It remains to be seen whether India will be able to strike a deal with Iran within the US overall framework of sanctions.
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- This combined with the OPEC reaction to lesser oil from Iran will determine the direction of oil prices.
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- Also, if US is not able to supplement supplies with its own shale reserves to matchup oil supply, then the price could go up further.
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- The US-China trade war will continue to keep the dollar stronger and make the rupee volatile.
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- Import tariffs - Import tariffs on several goods have been increased to lower the growth in imports.
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- But since the quota system became tighter after the WTO was set up, there aren't too many other steps that can be taken to improve the CAD of India.
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- Forex reserves - Currently with forex reserves at around $400 billion, import cover is comfortable.
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- But the decline in reserves of around $25 billion this year can be attributed mainly to the RBI selling dollars of around $15-16 billion to stem the rupee's fall.
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### What should be done?

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- RBI recently allowed forex borrowings for working capital by oil marketing companies(OMC) under the automatic route with immediate effect.
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- All the state-run OMCs will now be able to raise external commercial borrowings (ECBs) for working capital purposes with a minimum average maturity of three to five years from all recognised lenders under "the automatic route".
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- Under the liberalised norms, individual state-run refiners are allowed to borrow up to USD 750 million, while the overall borrowings are capped at USD 10 billion.
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- In addition to the liberalised norms for oil companies, a sovereign bond or NRI bond could also be made to increase foreign currency inflows.
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- But such bonds are expensive and are repayable and hence the future risk also needs to be weighed appropriately.
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- India has no control over the extraneous factors like trade wars, Federal Reserve actions and the rising prices of oil.
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- But the RBI needs to hold control over the fundamentals within our economy that are driving the rupee further.
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**Source: Business Line**

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