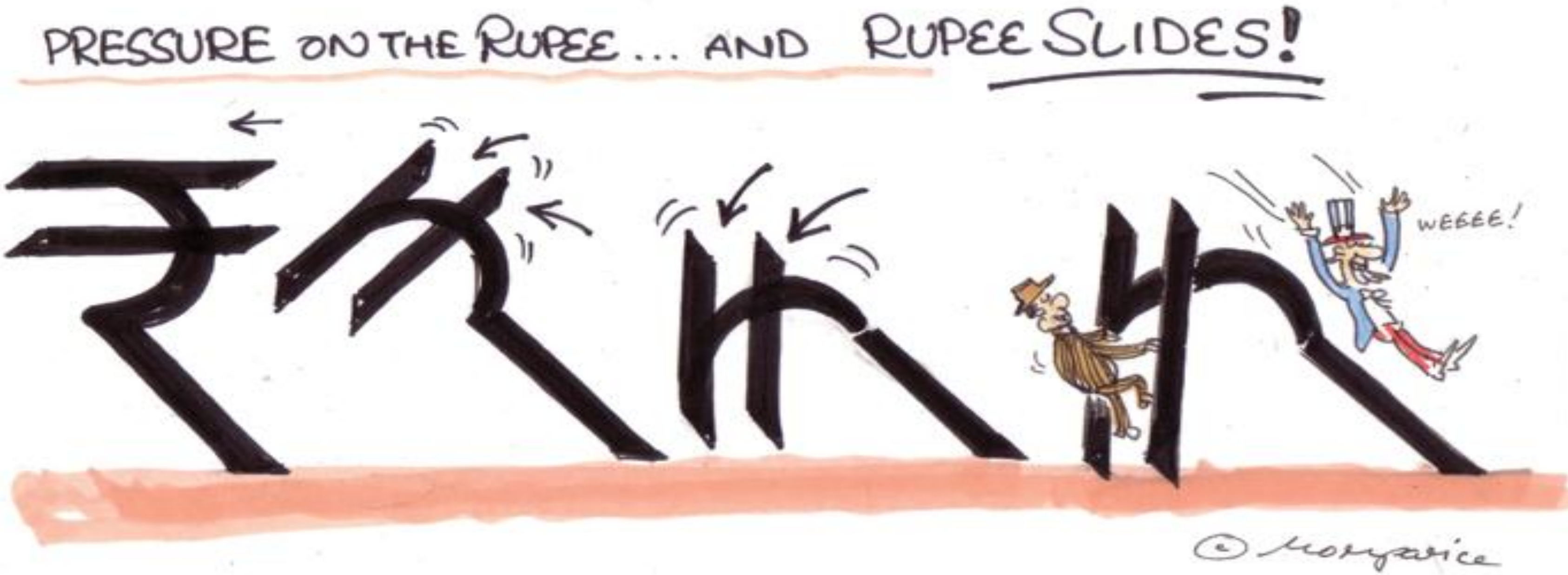
RUPEE DEPRECIATION



Abhisek Panda

WHAT IS DEPRECIATION

- Currency depreciation is the loss of value of a country's currency with respect to one or more foreign reference currencies, typically in a floating exchange rate system.

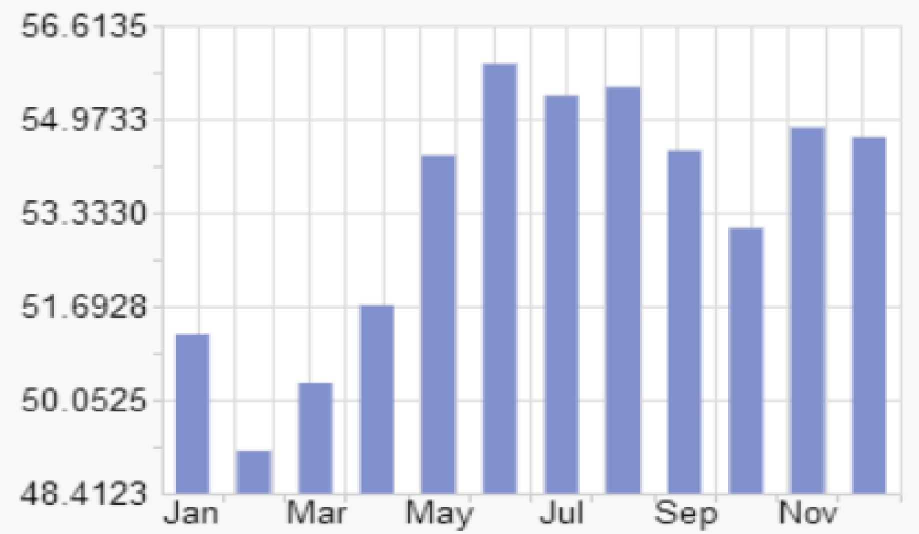
- It is most often used for the unofficial increase of the exchange rate due to market forces, though sometimes it appears interchangeably with devaluation.

- Its opposite, an increase of value of a currency, is currency appreciation.

CAUSES FOR DEPRECIATION

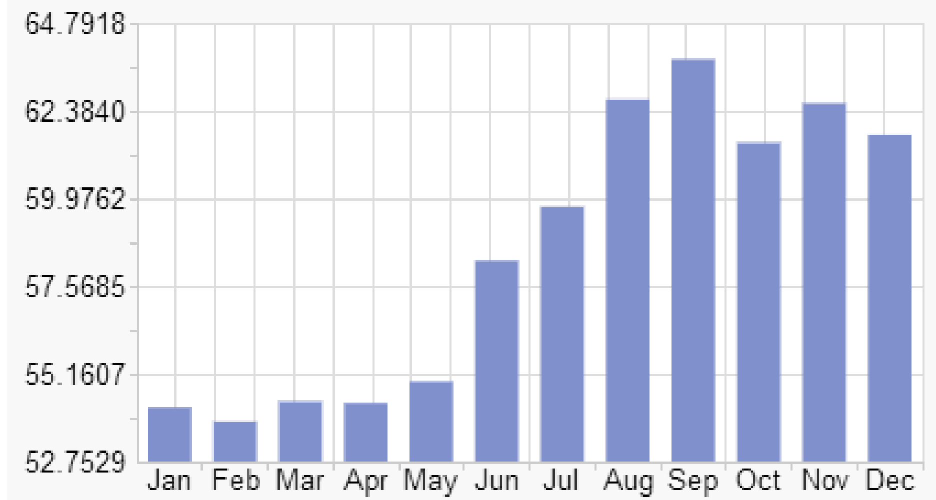
- High current account deficit
- Less FDI coming to India
- Unreasonably high imports
- FII outflows
- Low FOREX reserves
- Growth slowdown
- Short-term debt
- Capital controls
- Trends in other markets

DEPRECIATION TREND



Jan	**51.199382**	– 31 days
Feb	**49.157835**	– 29 days
Mar	**50.341695**	– 31 days
Apr	**51.704700**	– 30 days
May	**54.335202**	– 31 days
Jun	**55.935722**	– 30 days
Jul	**55.378541**	– 31 days
Aug	**55.534110**	– 31 days
Sep	**54.415429**	– 30 days
Oct	**53.062382**	– 31 days
Nov	**54.823582**	– 30 days
Dec	**54.652437**	– 31 days

2012 Monthly Average



Jan	**54.244736**	– 31 days
Feb	**53.847350**	– 28 days
Mar	**54.405311**	– 31 days
Apr	**54.366327**	– 30 days
May	**54.955194**	– 31 days
Jun	**58.271258**	– 30 days
Jul	**59.751616**	– 31 days
Aug	**62.695764**	– 31 days
Sep	**63.796821**	– 30 days
Oct	**61.511045**	– 31 days
Nov	**62.592274**	– 30 days
Dec	**61.727073**	– 15 days

2013 Monthly Average

Source: http://www.x-rates.com/average/?from=USD&to=INR&amount=1.00

DEPRECIATION TREND

Historical Indian Rupee Rate (INR USD)

Year	INR/USD	Year	INR/USD	Year	INR/USD	Year	INR/USD
1973	7.66	1984	11.36	1995	32.43	2006	45.17
1974	8.03	1985	12.34	1996	35.52	2007	41.20
1975	8.41	1986	12.60	1997	36.36	2008	43.41
1976	8.97	1987	12.95	1998	41.33	2009	48.32
1977	8.77	1988	13.91	1999	43.12	2010	45.65
1978	8.20	1989	16.21	2000	45.00	2011	46.61
1979	8.16	1990	17.50	2001	47.23	2012	53.34
1980	7.89	1991	22.72	2002	48.62		
1981	8.68	1992	28.14	2003	46.60		
1982	9.48	1993	31.26	2004	45.28		
1983	10.11	1994	31.39	2005	44.01		

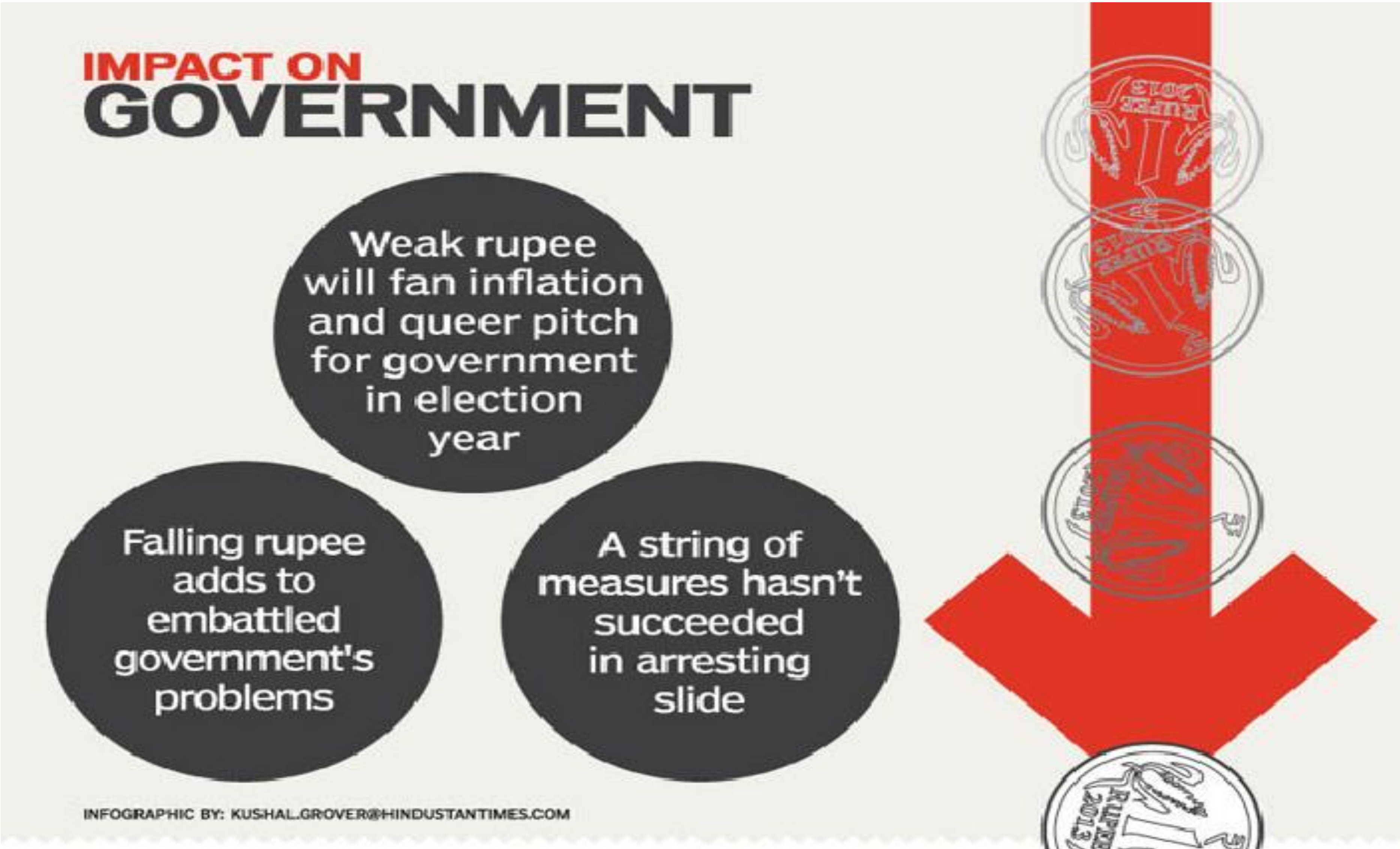
Average annual currency exchange rate for the Indian Rupee (Rupees per U.S. Dollar) is shown in this table: 1973 to present.

Source: http://rzdiv.blogspot.in/

EFFECT OF DEPRECIATION

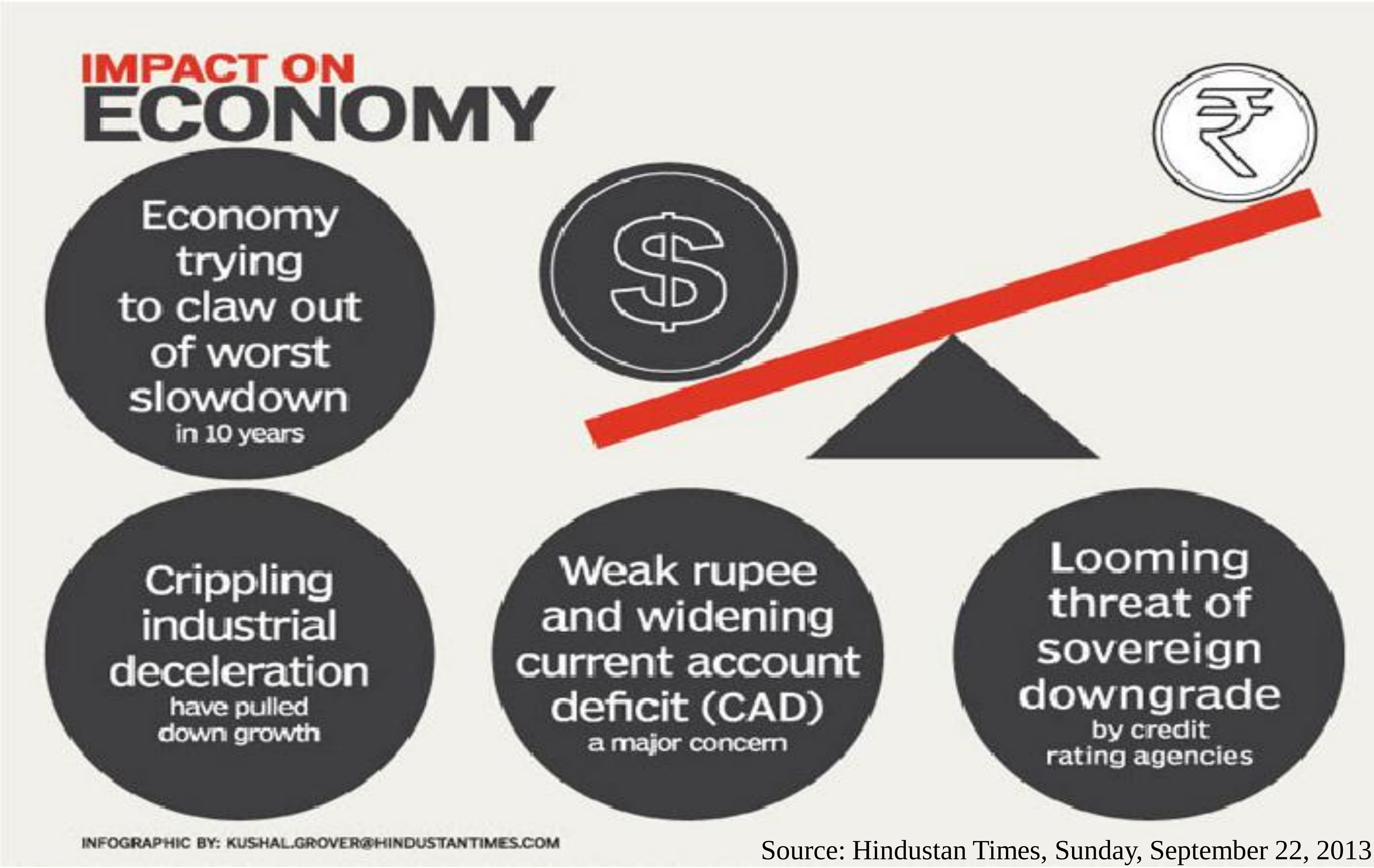
Source: Hindustan Times, Sunday, September 22, 2013

EFFECT OF DEPRECIATION



Source: Hindustan Times, Sunday, September 22, 2013

EFFECT OF DEPRECIATION



Source: Hindustan Times, Sunday, September 22, 2013

EFFECT OF DEPRECIATION

Looser

- Importers/ Imported goods
- Fuel price
- Students studying abroad
- Truism Abroad
- Overseas Indians
- Country’s fiscal health

Gainer

- Information Technology
- Pharmaceutical
- Aquaculture
- Exporters

STEPS TO BE TAKEN

- Using FOREX Reserves
- Raising Interest/ Policy Rates
- Make Investments Attractive- Easing Capital Controls
- Raise import duty on gold
- Boost export-intensive sectors
- Increase the limit of FDI
- Limit on foreign spends

STEPS TAKEN BY RBI

- India's regulators toughen rules for derivatives trading in currency markets.
  - RBI restricted banks from trading in domestic market
  - SEBI doubled the margin requirement on domestic dollar-rupee trade
- RBI directs OMCs to buy dollars from single PSB
- RBI eases overseas borrowing norms for firms
  - NBFCs can borrow from outside India up to $200 million in a FY with minimum average maturity period of 5 years
  - RBI extended External Commercial Borrowings (ECB) to $1 billion
- RBI has reduced the liquidity adjustment facility.
  - LAF reduced to 0.5% from 1%
  - RBI asked banks to maintain higher CRR of 99% of the daily requirement which was previously 70%

Sources: "Effect of Rupee Depreciation on Common Man by Prof. Navleen Kaur, Robin Sirohi, International Journal of Scientific and Research Publications, Volume 3, Issue 10, October 2013", RBI

STEPS TAKEN BY RBI

- Relaxing of FDI
- RBI extends restriction on co-operative banks for loan against gold coins.
    - RBI advices banks not to sale gold coins or lend loan against it
- RBI moves to limited capital controls to save rupee
    - Indian companies can now spend only 100% of their net worth as Overseas Direct Investment (ODI) which was previously 400%
    - This restriction is not applied to public sector Navaranta companies
- Import Duty on Gold increased to 10%
    - Import duty on gold increased from 8% to 10%
    - Import duty on platinum increased from 8% to 10%
    - Import duty on silver increased from 6% to 10%
    - Govt. restricted to have import of gold to 850 tone which was 950 tones in 12-13

Sources: “Effect of Rupee Depreciation on Common Man by Prof. Navleen Kaur, Robin Sirohi, International Journal of Scientific and Research Publications, Volume 3, Issue 10, October 2013”, RBI

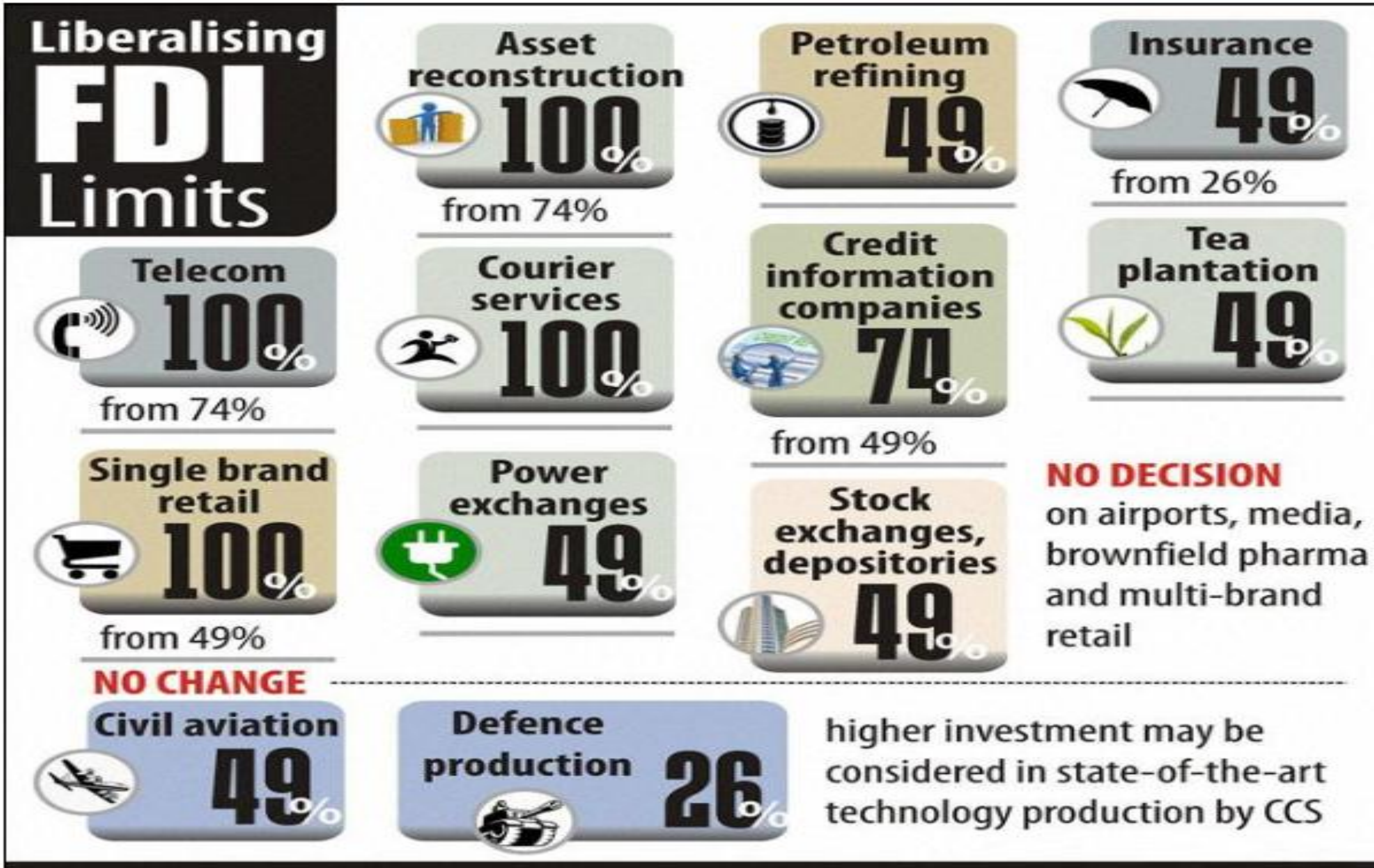
SOME FACTS

Foreign Exchange Reserves

Item	As on December 6, 2013	
	₹ Bn.	US$ Mn.
	1	2
1 Total Reserves	**18,250.5**	**295,709.0**
1.1 Foreign Currency Assets	16,573.4	268,755.5
1.2 Gold	1,285.5	20,603.1
1.3 SDRs	273.9	4,441.8
1.4 Reserve Position in the IMF	117.7	1,908.6

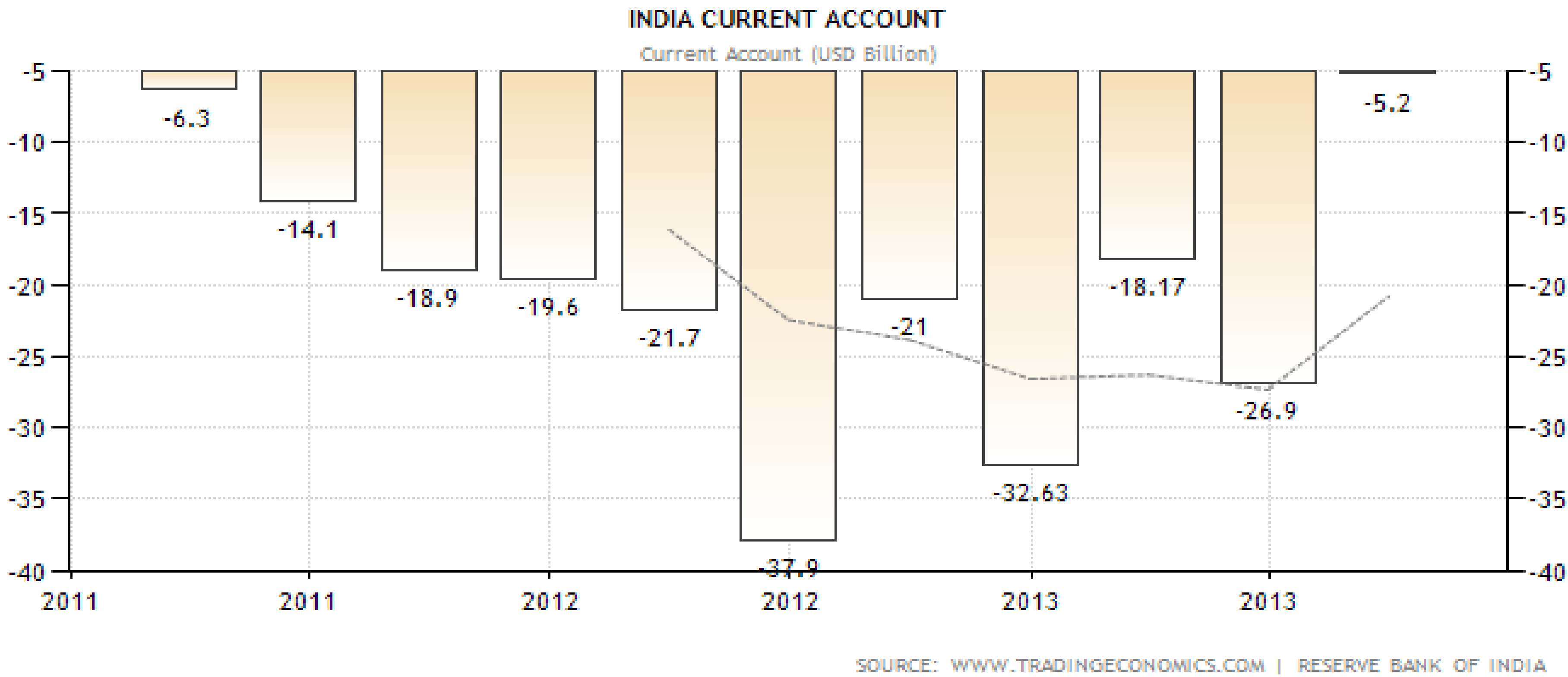
Source: RBI Weekly Statistical Supplement, Foreign Exchange Reserves, 06 Dec 2013

SOME FACTS



Source: http://indiatoday.intoday.in/story/government-foreign-direct-investment-defence telecom/1/291640.html

SOME FACTS



CALENDAR	REFERENCE	ACTUAL	PREVIOUS	FORECAST
2013-06-27	Q1 2013	$ -18.1B	$ -32.55B	$ -34.7B
2013-09-30	Q2 2013	$-21.8B	$ -18.1B	$ -14.7B
2013-12-02	Q3 2013	$-5.2B	$-26.9B (R)	$ -18.2B

SOME FACTS

TRADE	LAST		PREVIOUS	HIGHEST	LOWEST	UNIT
CURRENT ACCOUNT TO GDP	-4.60	2012-12-31	-4.20	1.50	-4.60	PERCENT
EXTERNAL DEBT	390048.00	2013-12-31	345819.00	390048.00	75858.00	USD MILLION
FOREIGN DIRECT INVESTMENT	3177.00	2013-09-15	1661.00	5670.00	58.00	USD MILLION
EXPORTS	24613.29	2013-11-15	27270.97	30849.65	59.01	USD MILLION
IMPORTS	33833.20	2013-11-15	37827.00	45583.30	117.40	USD MILLION

Source: http://www.tradingeconomics.com/india/current-account

CONCLUSION

- Indian Government has taken various steps to control rupee depreciation, but at the same time increase in imports of crude-oil and non-oil will remain a headache for the government.
- As most of the capital inflows are short term in nature, financing CAD is still an issue for the government.
- Boosting exports and looking for more stable longer term foreign inflows have been suggested as ways to alleviate concerns on current account deficit.
- Efforts have been made to invite FDI but much more needs to be done.
- Without a more stable source of capital inflows, Rupee is expected to remain highly volatile.

THANK YOU