

Heads I win, tails you lose

Gambling with the rupee, policy makers are unaware that they're playing a losing game, says **Uttam Gupta**

managers then, had identified the rupee's depreciation during the period between September 1995 and April 1996 as the third major culprit.

The steep hike in the prices of all petroleum products (except kerosene), by 15-30 per cent in July 1996, and again recently, in September 1997 — when it increased, in a swinging fashion, between 25 to 60 per cent — were justified in terms of the above-mentioned factors.

This included rupee depreciation off an inflationary spiral which the Government has been reluctant to admit.

Considering that the rupee has now depreciated once again — losing almost as much as it lost in the earlier round — the ground for yet another bout of steep increases in the prices of petroleum products has been prepared.

In fact, this will be, more or less, automatic as prices have already been linked to import parity (IMPP).

For fixation purposes, this is C&F landed cost in rupee plus port handling charges and customs duty wherever applicable.

Unfortunately, the powers that be remain insensitive to these serious implications. Else, they would have categorically come out with a statement that the Government would not let the rupee slide beyond a certain benchmark level and galvanise actions accordingly.

The irony is that either they are not clear as to what that level should be, or there are other interests at work.

Those who are hell bent on seeing the rupee fall, may argue that such posturing by authorities would fall contrary to market forces which should be allowed to work unhindered.

However, a close scrutiny of what happened during 1996-97 and in the first half of 1997-98 will suffice to expose their double standards.

During this period, with lot of dollars flowing in — through foreign direct investment (FDI), foreign institutional investors (FIIs) and global depository receipts (GDRs) — the rupee had tended to appreciate.

Unfortunately this was prevented by the RBI's exercise of mopping excess dollars.

All import-dependent industries, in fact the entire national economy, was denied the consequential benefits of this appreciation, legitimately due to them.

Ironically, by not allowing the rupee to rest in peace even at Rs 36 per dollar, India's policy makers have made their position even worse.

And for the economy and the nation at large, it is a clear-cut case of heads I win tails you lose.

REACTING to the recent crisis in the exchange market, the Governor of the Reserve Bank of India (RBI) is reported to have said that the apex bank would act in the best interests of the national economy overall and would intervene at the right time to protect the rupee.

This statement however, fails to instill confidence, especially since the damage has already been done.

A look at the current scenario, shows just how pathetic the situation has really become, and to what levels the hapless rupee has, quite literally, fallen.

Currently, the exchange rate, vis a vis the U S dollar, hovers in the region of Rs 39 per dollar. A sharp three rupee slide as compared to its somewhat sturdier, earlier stance of Rs 36 per dollar.

That being the level from where the recent downward journey of the rupee commenced.

This fall by three rupees to one dollar, in a span of less than three months is, needless to say, unprecedented.

If at all a parallel could be drawn, it would be with the rupee's slide two years ago.

During this bad patch, the rupee slid from Rs 31.8 per dollar, in September 1995, to Rs 35.8 per dollar by April 1996, over a period of seven months; this time the ailing economy has caused a quicker decline in the rupee's health.

Further, although the RBI has lost more than \$ 2.0 billion in providing support to the rupee, even this august body was unable to prevent its substantial downward slide.

What's more, it continues to remain under serious pressure. There is a loud talk of the exchange rate now crossing the Rs-40-per-dollar mark sooner, rather than later.

Clearly, the \$ 2.0 billion worth of interventions by the Central Bank have been untimely and ineffective.

Meanwhile, the rupee's fall has had its customary impact, inflicting heavy injury on the nation's economy.

To begin with, the cost of essential imports like crude oil, petroleum products and fertilisers among others, has gone up steeply.

Reportedly, mandarins in the Finance Ministry estimate that revenue from customs duty will go up by about Rs 1,500 crore during the current year.

Which, in turn, means that assuming an average duty of about 20 per cent, the cost of imports would have increased by about Rs 7,500 crore.

Further, while protagonists of reforms in vital sectors like the fertiliser sector, preach that the industry should try to

contain costs, a quick estimate done by the Fertiliser Association of India shows that the recent depreciation of the rupee alone would increase expenditure on imports of fertiliser raw materials, intermediates and finished products by a whopping Rs 620 crore per annum.

With respect to urea, covered by controls along with the retention pricing scheme (RPS), this will further upset the fertiliser subsidy budget, which is already battered by the recent steep hike in the prices of naphtha, fuel oil, LSHS and natural gas for decontrolled phosphatic and potassic fertilisers — eventually it is the selling price to the farmers which will buckle under pressure.

It is important to note at this juncture that, during the second half of 1997-98, the Government has not allowed any increase in selling prices

In view of this and in view of the contemplated reduction in concession amounts, production/imports have become unviable leading to supply constraints.

Already, shortages of phosphatic fertilisers have surfaced in several states including states like Punjab, Uttar Pradesh, Bihar, Rajasthan and Gujarat.

The authorities, however are choosing to display an ostrich-like mentality and are seeking to down-play the disastrous effects of depreciation.

The Finance Secretary, it is reported, even said that he was not rattled by the fall.

Perhaps, the Government needs to recap on the crisis caused by ballooning deficit in the Oil Pool Account (OPA).

Apart from the reduction in domestic production of crude and the increasing demand for petroleum products, the crisis

