



Why rupee fall remains a worry

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Highlights

- Fuel prices jump as rupee hits another low, driven by rise in global crude prices and political uncertainty.
- While rising crude oil prices were already having an impact on the rupee, a free fall of the Turkish lira following an economic crisis in that country impacted emerging economy currencies, which lost ground against the dollar.
- Amid a rise in global crude oil prices, geopolitical uncertainty and a decline in the rupee, fuel prices across the country have witnessed a sharp spike over the last one month.
- Brent crude trading at around \$78 per barrel and the rupee trading below 71 to a dollar are a growing concern for the economy, affecting the country's import bill and the current account deficit.

Why rupee is falling?

- Concerns around US sanctions are a rising threat to oil supplies, leading to a spike in crude prices.
- While there are disruptions to crude supply from Iran and Venezuela, there is widespread concern that the global oil market will get squeezed over the next few months as US sanctions restrict crude exports from Iran.
- Even as Saudi Arabia and some other major oil producers could raise their output, the market feels that it may not be enough to offset declines in Iran, Libya and Venezuela that are grappling with crises.
- Concerns over US-China trade talks, too, have had an impact on emerging market currencies over the last couple of months.
- The situation is expected to remain tight and oil prices may continue to rule high.

A weak rupee not only hurts the country and its importers on account of a higher import bill and current account deficit but also tends to be inflationary which will be keenly watched by the Reserve Bank of India.

Fuel prices -Impact on Economy

INFLATION

- High fuel prices have a direct bearing on the non-food parts of CPI (Consumer Price Index) and WPI (Wholesale Price Index) inflation and it may have a bearing on the RBI's decision to go for another interest rate hike in its efforts to contain inflation.

How to deal with this?

- There is nothing the government can do to check the rise in global crude oil prices, nor can it do much to check the fall of the rupee as it is driven mostly by external factors.
- The RBI, however, intervenes intermittently to check excessive volatility in the currency market.

CURRENT ACCOUNT DEFICIT

- This is a measure of country's trade, when the value of goods and services it imports exceeds the value of goods and services it exports.
- The current account also includes net income, including interest and dividends, and remittances.
- A high CAD can create macro-economic vulnerability in an economy, especially affecting stability in currency markets.
- CAD is measured as a percentage of the Gross Domestic Product.

Why?

- India's CAD is typically vulnerable to any rise in international crude oil prices as the country imports around 85% of its oil requirements.
- Rising global oil prices, when coupled with a sharp depreciation in the rupee, creates a double blow for the CAD as the country's import bill spikes even though the volume of import may remain the same.

How to deal with this?

- In 2012-13, when the CAD shot up to 4.7%, India had to resort to severe restrictions on gold imports and raise foreign currency deposits at higher rates to protect the macro-economic health of the country.

Going forward, should a similar situation arise and the rupee continue to depreciate, the government could look at raising funds through issuance of NRI bonds to stabilise the currency.

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