

# RUPEE VS DOLLAR MANIPULATION?

Crude - \$ 147 to \$ 99 – Rs vs \$ 39 to 45.57



**Dr. Kirit Somaiya**

Member – BJP National Executive

11<sup>th</sup> September 2008

# Indian Rupee Vs. US Dollar 47-39-45.57 – Manipulation?

- Government strategy and policy have long-lasting impact on country's economy
- Strong Government, strong currency, strong Rupee makes economy-country stronger
- BJP-NDA Government took steps in this direction, made India strong on foreign exchange reserve. Rupee got stronger and stronger during the 6-year regime
- Three economists of Congress-UPA Govt., viz. Hon'ble Prime Minister, Finance Minister and the Dy. Chairman of the Planning Commission are creating the bubbles and allowing them to burst
- This is resulting in damage to the economy, affecting everyone and benefiting the very "selected" few

# Indian Rupee Vs. US Dollar 47-39-45.57 – Manipulation?

- It's Bubble & Burst, Speculation – Manipulation? Capital Market, Commodities, Real Estate and now Forex
- Abnormal movement in the exchange rate - Rupee vs. Dollar – disturbs growth.
- Weak Rupee benefits exporters, and strong Rupee helps importers
- India imports more than it exports, so a strong rupee would help the country
- India's major import bill is oil. Major importer is the Government. As the weak Rupee increases import prices, **the people pay for it.**

# Indian Rupee Vs. US Dollar 47-39-45.57 – Manipulation?

- Oil prices have come down from \$147 to \$ 99
- Under these conditions, the Rupee could have become stronger – Rs.35 to 37 vs. Dollar, but it has depreciated steeply in the last couple of months from Rs.39 to Rs.45.57
- Weak Rupee causes higher oil prices. Either the people pay for it directly through higher petrol and diesel prices, or indirectly through oil subsidies
- The only beneficiaries are few major exporters / corporates
- The major losers are the people. Govt. of India

# Rupee Vs Dollar

Date	Rs.
11.1.2007	44.49
12.12.2007	39.29
1.2.2008	39.12
April 2008	39.95
14.5.2008	42.46
11.9.2008	45.57

# Impact on the life of Common Man

- Horrible rise of crude oil price from US\$ 100 per barrel to US\$ 127 per barrel is also going to break the backbone of the Indian industry.
- The sad part is negligence on the part of UPA Government. No measures had been suggested and taken in the recent Budget.
- The impact of crude oil price is going to result into horrible increase of oil subsidy and simultaneously fertilizer subsidy.
- Keeping on ignoring this would result into deficit financing and horrible inflation.
- To absorb such increase in prices and volatility, Government is compelled and forced to compromise with the production and social welfare expenses, investment on infrastructure projects.

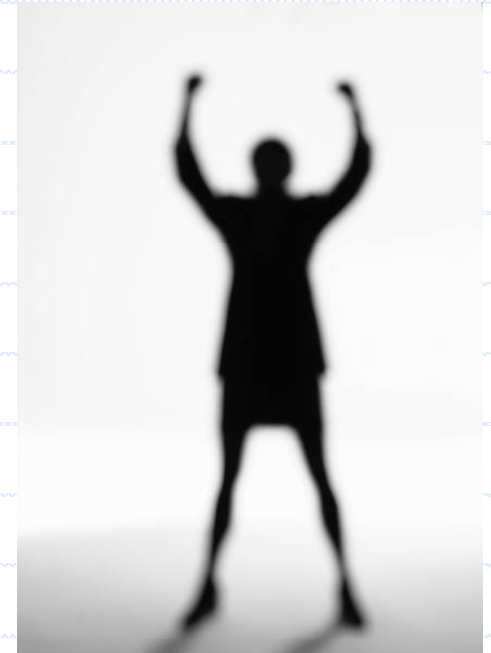
# Impact of CURRENCY FLUCTUATION

- Indian rupee appreciation against dollar impacted heavily to the following:
- Exporters
- Importers
- Foreign investors
- Exports from India are of handicrafts, gems, jewelry, textiles, ready-made garments, industrial machinery, leather products, chemicals and related products. Since the 1990s, India is the world's largest processor of diamonds. The mentioned export items contribute substantially to foreign receipts. During the periods when the dollar was moving high against the rupee, exporters stood to gain, when  $\$1 = \text{Rs. } 48$ , was getting them Rs. 4800 for every \$100. Since the beginning of the year 2007, rupee appreciated by about 10%. With its value of rupee Rs.  $39.35 = \$1$  as on 16 Nov 2007, for every \$100, exporters would get only Rs. 3935. This difference is towing away the profit margins of exporters and BPO service providers alike.



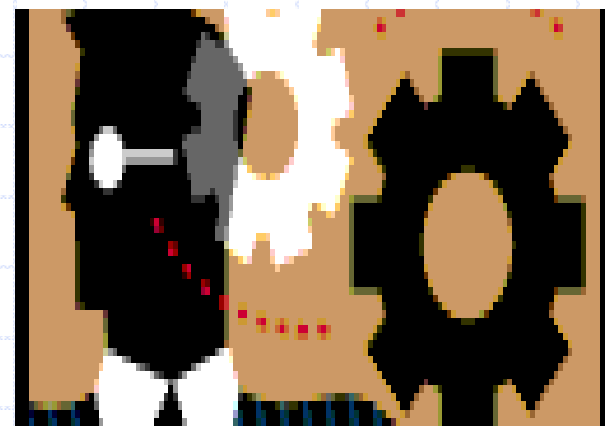
# Impact continues

- Imports to India are of petroleum products, capital goods, chemicals, dyes, plastics, pharmaceuticals, iron and steel, uncut precious stones, fertilizers, pulp paper etc. With the same scenario as given for export, if we analyze - an importer is paying Rs. 3935 now instead of Rs. 4800 paid during yester years for every \$100. This gain on FX is likely to create savings in cost, which could be passed on to consumers, thereby contributing to control inflation, BUT THIS DOES NOT HAPPEN.
- Conclusively, appreciation and depreciation of rupee cannot certainly be taken as beneficial to the Indian economy in general. On one hand the rupee appreciation will affect exporters, BPOs, etc., on the other, rupee depreciation will affect importers.



# Impact continues

- The rupee started appreciating bit by bit in 2002, but that did not impact the earnings of the IT companies much because, for one, the appreciation was slow, and it was never just one way. Second, Indian IT companies could raise their billing rates while keeping their costs under check.
- The past 15 months, however, particularly the past six months, have been a nightmare for India's dollar (and other foreign exchange) earners. Ever since the beginning this year, on the back of huge foreign-exchange inflows thanks to a burgeoning economy, the rupee has appreciated by an unprecedented 9% against the dollar, making it worth 13% more than what it was a year ago.
- All this means that the dollars Indian companies are earning are fetching fewer rupees back home. The Indian software sector on average earns more than 60% of its revenues in US dollars (most the rest comes from Europe) and analysts say that every 1% appreciation in the rupee against the dollar can impact earnings before interest and tax margins between 3% and 5%.



# Indian Rupee Vs. US Dollar 47-39-45.57 – Manipulation?

- Export profit is totally exempted from all taxes. Profits, benefit are pocketed by few selected
- Higher diesel prices mean higher costs across the economy. Everyone pays more, even the poorest of the poor
- Is it manipulation?

**There is a need to study abnormal movement of  
Rupee vs. Dollar.**

**-- Dr. Kirit Somaiya**

# A glimpse on Weak & Strong movement of rupee

Date	Rupee/Dollar	Strongest/ Weakest
16.1.2008	39.02	Strongest
11.9.2008	45.57	Weakest
19.7.2006	47.04	All time lowest since 2006
3.5.2007	44.69	

# How it works...

## Exchange Rate

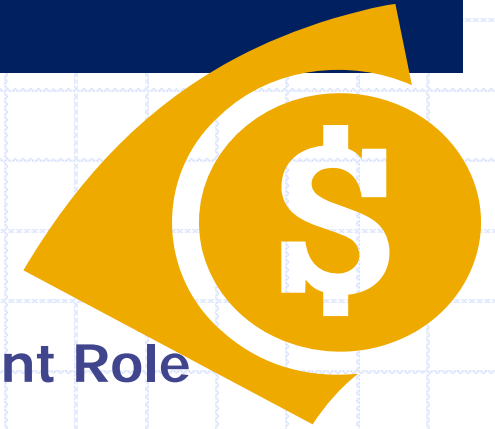
It is the rate at which one currency is sold to buy another.

## A Look at the History

- India had semi fixed rate model till the 90s
- Fixed FX rate is the rate fixed by the central bank against major world currencies like USD dollar.
- Floating FX rate is the rate determined by market forces based on demand and supply of a currency.

## RBI and Government Role

- When RBI/Govt. buys US Dollars, it sells Indian Rupees
- From June 2007 – June 2008, RBI bought USD 107 Bln, or sold approx Rs, 4,00,000 crores
- This Rupee selling has caused
  - **Higher petrol & Diesel Prices?**
  - **Higher subsidy bill?**
  - **Higher Inflation ?**
  - **National Poverty?**



# National Poverty

Year	Diesel Price in India	International Price of Oil
1973	Rs. 0.83 / lt	\$14.00 / BI
1986	Rs. 3.52 / lt	\$20.00 / BI
1990	Rs. 5.62 / lt	\$ 29.00 / BI
1996	Rs. 9.00 / lt	\$ 23.00 / BI
1999	Rs. 12.00 / lt	\$ 19.00 / BI
2004*	Rs. 24.35 / lt	\$ 38.00 / BI
2008**	Rs. 39.54 / lt	\$106.00 / BI

From 1973 to now, an Indian pays **48 times** for one litre of fuel. The international price has just gone up 7.5 times

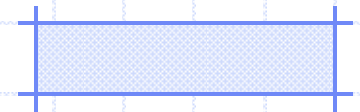
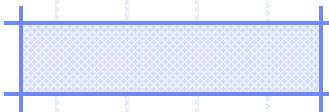
## Imposing poverty on an already poor country

\* Negligible Government Subsidy

\* Government Subsidy of approx Rs. 1,50,000 crore and numerous state subsidies

# Manipulation?

- RBI Buys US Dollars / Sells Indian Rupees
- RBI invests US Dollars in low yielding assets globally
- Indian Rupee injected in the system is sucked out by selling Government Bonds under Market Stabilisation Scheme (MSS)
- As interest rates in India go up, the cost of sucking out liquidity rises
- Extra liquidity causes asset bubbles (Real Estate & Equity)
- Extra Liquidity causes inflation



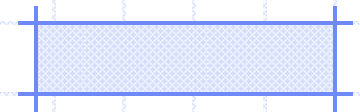
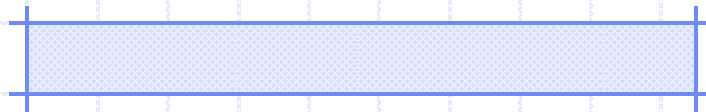
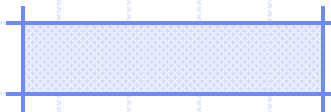
# Manipulation?

- From Jun 07 – Jun 08, RBI bought US\$ 107 billion
- RBI Hiked CRR and Sold MSS Bonds to suck out Rupee Liquidity totaling US\$ 42 billion
- Total MSS bonds outstanding = Rs. 1,71,000 crore
- Total Cost of MSS borrowing @ 9% = 15,390 crore
- Extra Liquidity injected after all this

**Rs. 2,50,000 crore**

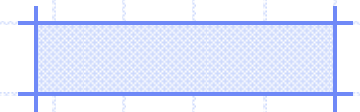
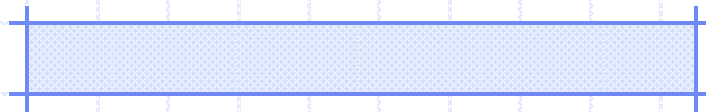
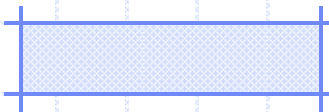
**Approximately 6.5% of GDP**

- So how can the Government claim that they are trying to reduce inflation, when they have caused it?



# Manipulation?

- When Indian Rupee is created by the RBI to buy US Dollars, the value of the rupee reduces
- Because Indian Rupee is weak, government has to provide subsidy to Oil Companies
  - **Total oil Subsidy Bill = Rs. 1,50,000 crore**
- This is money collected from honest taxpayers and used to benefit exporters. Goes to few “selected”
- Money could have been used for Social Welfare, Poor People. Government Fiscal Deficit will be the highest in recent years
- This Fiscal Deficit will cause further inflation



# Stop the Manipulation!!

- If Oil price is US\$ 100/barrel and Rupee exchange rate is Rs. 40/US\$, then a barrel of oil in India costs Rs. 4000/-
- If Oil Price remains the same, but Rupee exchange rate becomes Rs. 45/ US\$, then a barrel of oil in India now costs **Rs. 4,500/-**
- This leads to inflation in India, even when there is no inflation in the world

# Stop the Manipulation!!

- Again, if Oil price is US\$ 100/barrel and Rupee exchange rate is Rs. 40/US\$, then a barrel of oil in India costs **Rs. 4,000/-**
- If **Oil Price increases to US\$ 110/barrel**, but Rupee exchange rate becomes Rs. 36/ US\$, then a barrel of oil in India now costs **Rs. 3,960/-**

**So, who is causing Inflation? International markets or Indian Government?**

