Chairman's Pen

My dear fellow exporters,

Friends, the RBI Governor announced the Monetary and Credit Policy for the current fiscal year on April 24, 2007. While know changes were made with regard to the benchmark interest rates, no extra initiative was taken to soften export credit costs that have escalated over 3% in the last quarter. Significantly, even though some steps were initiated to liberalize the capital account by doubling the remittance limit to USD 100,000; raising the overseas investment limit and allowing pre-payment of ECB up to USD 400 million, the Rupee breached the 41 level against the dollar immediately a day after the RBI announced its Monetary Policy for the ensuing year.

Your Council has protested the 12% appreciation of the Indian Rupee in nominal terms since July 2006 and nearly 11% appreciation of the Real Effective Exchange Rate (REER) since the summer of last year. The Council has sent ***SOS messages to the Prime Minister of India, the Finance Minister and Commerce & Industry Minister*** *stating that it has received a large number of messages from its constituents expressing their desperate situation that reflects absolute helplessness over the complete apathy on part of our monetary authorities to intervene in the market to stabilize the Rupee.*

The Council has also pointed out that expectations play a critical part in determining volatility and price movements and the foreign exchange market is being led by speculators. In such a state of flux, the Council member exporters are at their wits end to estimate the value of the Rupee vis-à-vis the dollar in order to carry out their export obligations. Thus, it is not only the problem of sharp Rupee appreciation, but the complete uncertainty of the value of the Rupee, which seems to be moving in only one adverse direction most of the time in the last couple of months that has made exporting an unviable proposition. A few members, of whom some are large exporters have informed the Council that if they continue to export for another 15 days at the current exchange rate, their books are going to become NPAs.

The Council has also pointed out that the export target for the current year has been put at USD 160 billion, of which, engineering exports are projected to be within the range of USD 30-35 billion. Given the response that the Council has been receiving from its member exporters, it is well nigh impossible to reach this target in view of the north bound march of the Indian Rupee against the dollar. A large number of Council members have also written wanting to know whether the Government wants them to stop exporting and instead become importers?

The Council has pointed out that it is high time that the Rupee appreciation is reversed and the time-tested policy of fairly active RBI intervention in forex markets to moderate market-driven volatility and maintain a "competitive" exchange rate is restored ***before serious, lasting damage is inflicted in on exports, growth and employment****. As the former Chief Economic Adviser to the Government of India, Dr Sankar Acharya notes in The Business Standard on April 26, 2007, "if this requires augmenting RBI's capacity for sterilized intervention through MSS or other means, so be it. (The quasi-fiscal costs of this policy are well-known, manageable and far out weighed by the benefits of higher exports, growth and employment associated with a lower Real Exchange Rate of the Rupee)".*

The Council has accordingly requested the Government to urgently initiate the necessary steps to halt the disastrous march of the Indian Rupee that is sure to destroy India's industrial base, export markets and employment.

Yours sincerely,

(RAKESH SHAH)