‘Worst of rupee fall may be over’

RBI may not have used more than $30 billion in defending the currency: SBI report

OUR BUREAU

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The worst of the rupee’s decline may be over. A research report by State Bank of India found there were only three instances where the pace of currency depreciation lasted more than four quarters since the global financial crisis.

The report also said the Reserve Bank of India (RBI) has enough firepower left to support the rupee as it may not have used more than $25-30 billion in defending it.

According to the Ecowrap report, after the Russia-Ukraine war broke out, the RBI’s forex currency assets (FCA) have declined by $59 billion. However, FII outflows during the period totalled $23 billion only. Thus, the rest of the decline can be attributed to a fall in the value of non-dollar reserves amid a steep and secular dollar appreciation, said Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI.

According to SBI’s economic research department’s (ERD) estimate, non-dollar currency may constitute 45 per cent of FCA. “The RBI might not have used more than $25-30 billion in defending rupee, given the increasing penchant of the regulator to intervene in the NDF (non-deliverable forward)/ future markets...the rest of the decline might be purely because of valuation...enough support for rupee is thus still available,” Ghosh said, adding the worst of the rupee’s fall may soon be over.

Rupee’s depreciation

Time period	Months taken
Jan 2008 to Mar 2009	14
Apr 2010 to Dec 2011	20
Feb 2012 to July 2012	5
Oct 2012 to Sep 2013	11
May 2014 to Feb 2016	21
Jan 2018 to Oct 2018	9
Jul 2019 to Apr 2020	9
Mar 2021 to Jul 2022	16

Source: SBI Research

He observed that the RBI has been actively managing system liquidity. It is also using spot intervention in the forex market as a policy tool to surprise the market.

ECBs: Misplaced fears

Ghosh emphasised that fears of unhedged foreign currency exposure were misplaced as most companies raising external commercial borrowings (ECBs) have sovereign windows (oil marketing companies), pass-through to parents (government-backed developmental financing companies in power, railways and so on) or PSUs, which gives them a natural hedge character.

Additionally, natural hedge in terms of export receivables or/ other payments during the loan tenor offers cushion from the currency market volatility.

“Corporates, in alignment with board-approved risk management policies, would have hedged a significant portion (even if not optimal) during the recent upheaval when rupee was facing volatility against a galloping USD.

“With the European Central Bank raising the benchmark deposit rates by 50 basis points, we believe this should be accretive for rupee through bringing parity in major central banks’ action,” the report said. Major and better rated corporates also have the time-tested option of refinancing the existing ECB obligations to remain unaffected thereby remaining unfazed by the much-touted exchange rate risk, it added.

“Not all the payments shown due and unhedged ($79 billion, as per the March Financial Stability Report) are in the immediate vicinity (lumpy payments) and should be well distributed along at least a 5-year curve, giving the corporate entities much respite to repay out of future accruals along scheduled timelines,” Ghosh said.

Decade-high CAD rise

The ERD opined that FY23 will be a challenging year since, as per its estimates, the current account deficit (CAD) will breach the 3 per cent mark to touch a decade high of 3.2 per cent of the GDP.