‘Steps will improve dollar supply, curb speculation’

ANALYSIS

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The 11 per cent deprecation of the rupee in a span of three months has been due to the uncertain taxation issues in India, the worsening domestic fundamentals, a policy paralysis and the stepped-up importer demand, owing to high crude oil prices. The Reserve Bank of India (RBI) has come up with indirect measures like deregulation of interest rates on non-resident external rupee and non-resident ordinary rupee accounts and on export credit to increase the dollar supply. Today’s move on exchange earner’s foreign currency (EEFC) accounts and liberalisation of the intra-day open position are an extension of this.

With these measures, RBI is trying to improve the dollar supply, while at the same time curbing speculation in the market. Exporters keeping balances in EEFC accounts, anticipating depreciation in the rupee’s value, would now have to liquidate 50 per cent of the earnings on day one and importers who wish to make payment would have to first utilise their EEFC balance and then buy the remaining amount from the market. This would also help reduce the dollar demand from the market. But yes, the main purpose of saving transaction costs is diluted to a certain extent, companies would have to initially convert 50 per cent of the balances and then incur costs again while making payments.

It is estimated that currently, about \$5 billion is held in EEFC accounts, of which about \$2.5 billion is likely to be liquidated within 15 days. This would help cool off the sharp rupee depreciation and provide the much-needed dollar liquidity.

In another move, RBI reviewed the net intra-day open position/daylight limit of the authorised dealers, and decided to fix the limit of the authorised dealers at five times the net overnight open position limit available to them, or the existing intra-day open position limit approved by RBI, whichever is higher, for positions involving rupee as one of the currencies.

Earlier, banks could not take intraday positions that were more than their overnight limits, though some large banks were allowed by RBI to increase their intra-day positions. The current move could help ease intra-day rupee volatility by increasing market liquidity and giving banks more time to cover large foreign exchange transactions. This move would also standardise the setting up of daylight limits for all banks by directly linking these to their net overnight open position limits.

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