RBI allowing markets forces to determine the value of rupee: Madan Sabnavis, CARE Ratings

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ET Now caught up with Madan Sabnavis, Chief Economist, CARE Ratings, for his views on the RBI's policy stance and the rupee, with the broader economy as the backdrop. Excerpts:


("There has been less intervention,...)

ET Now: What would be the implications of any kind of ... on the rupee? Till now, the ... tracking the dollar index and ...s losses there. What happens

Madan Sabnavis: If you look at the rupee, if you just go on the basis of pure fundamentals, we seem to be on fairly firm ground in terms of both the current account deficit as well as inflows, which are coming in through FDI and FII investment. So, in terms of fundamentals, the rupee should remain stable in the region of around 61 to a dollar.

Now what happens on account of extraneous factors would definitely be something which one has to conjecture upon. We have been looking at what has really been driving the rupee down over the last couple of sessions.

ET Now: The RBI's annual report has suggested that the rupee is slightly over-valued. If you look at the inflation differentials between India and the US, there is a strong reason to believe that the RBI has a point. Why is the RBI not doing anything about it, particularly because it will also mean adding to their reserves?

Madan Sabnavis: That is an interesting thought. But as of now, the RBI is leaving the rupee value to be determined more by the market forces. That is what we are really seeing. There has been less intervention, and to certain extent, the RBI has been buying up dollars every time the rupee is approaching or going below the 60-mark.

But otherwise, it has been generally left to the market. That is the kind of sense that I am getting. But I do agree with you that there are definitely reasons for one to believe that there could be some kind of an over-valuation based on the inflation differentials between India and the rest of the world.

ET Now: How do you read the current geopolitical tensions? Would you think they have subsided? There are reports that Russia is contemplating seizing the assets of multinationals. What does that mean for gas security in Europe? Will it rock currency markets once again?

Madan Sabnavis: There is a fair amount of stability in oil prices. In spite of the tensions which we have had in various parts of the world, we have seen crude prices only softening contrary to our expectations. That

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could probably be the trend going forward too.

One of the uncertain factors has always been oil price. But now it looks like it is more or less stable. And what it more, it would probably remain in this current range.

ET Now: Raghuram Rajan seems to be taking every opportunity to reiterate the RBI's commitment to get the inflation down. Normally before the monetary policy, the government is very silent, but here we have a governor coming out again and again. Is it because he wants to ward off any possible 'pressure' from the government to cut rates by telling the government publicly that look, we need to see that inflation comes down? Am I reading too much into it? Would you concur, or would you take a different view altogether?

Madan Sabnavis: You are probably reading too much into it. I have been in the industry for 25 years. Earlier, when we had just two RBI credit policies, it was a lot of surprise element, a lot of conjecture as to what the RBI would be doing.

To reduce this uncertainty, the earlier governor had brought in eight policies. Now we have six policies, but what really happens now is that the RBI is in focus even between the policies. There are several meetings and seminars which the governor attends. He is invariably asked as to what the RBI is doing about interest rates.

Whenever this question pops up, RBI's response is that they will have to wait and watch and make sure that inflation is really under control before rates are tinkered with. So, on a more serious note, I would say that the RBI would actually be looking at inflation numbers — about the sustainability of the inflation numbers below this 8% mark — before they take any action.

I would not read anything more into it. The government may well have a different view; but as long as we have high inflation, it will not be possible to cut interest rates. And high inflation is definitely distortionary when it comes to economic growth.

ET Now: The kind of reports that we earlier got from the RBI twice or maybe sometimes even thrice a year, used to be a very exhaustive explanation of RBI's reading of various macroeconomic fundamentals. That is noticeably absent now. Is that a conscious decision? Are we not losing something?

Madan Sabnavis: In fact, I do not think we are losing much with the RBI not talking of it every time. This is because this kind of information now definitely has a higher frequency. Therefore, we are aware of what is happening and we also have a case of both the government as well as the Reserve Bank commenting on almost every economic release that comes out.

Putting it all together, repeating the very same thing probably may be a bit superfluous. So, what the RBI has done is to make it really short and succinct so that we just concentrate on the monetary policy aspect of it, keeping out all the economic aspects, the global perspective or for that matter even the banking or monetary policy reforms.

All these things have been consciously kept out of the policy. That makes a lot of sense, because if they are having too many policies — six policies now — just reiterating the same thing may not really be adding too much of value.

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