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CII Suggests 12 Ways to Control CAD, ₹

Cautions that rupee volatility can create inflationary pressure, lead to a loss of foreign investor confidence

Our Bureau

New Delhi: The Confederation of Indian Industry (CII) has submitted a dozen suggestions to the Prime Minister's Office, the finance minister and Reserve Bank of India on curbing rupee volatility and controlling the current account deficit (CAD).

The business chamber has warned that while some rupee depreciation was initially required, any further volatility can have a negative impact on the economy, create inflationary pressure and lead to a loss of confidence among foreign investors.

CII has suggested incentives for foreign currency non-repatriable (FCNR) accounts, non-resident Indian (NRI) bonds and a special dollar window for oil companies, among the 12 measures to manage volatility in the rupee.

The suggestions were submitted on Wednesday, when the rupee closed at another all-time low of 73.34 to a dollar. The Indian currency is down nearly 14% against the dollar since 2018 start.

CII said the rupee depreciation has led to a steady increase in the domestic retail price of fuel, made imports costlier and though exporters have benefited, cost pressures have escalated across businesses.

"Consumption demand, which has been buoyant recently, may become subdued as additional cost of fuel leads to pressure on disposable incomes. This would dampen demand ahead of the festival season," it warned, adding that the recovery in the economy could get derailed.

CII also pointed out that the primary reason for the rupee depreciation was large capital outflows due to normalisation of the US monetary policy and rise in crude prices. "It is, therefore, important to find ways to finance the CAD, which will remain under pressure as long as oil prices are climbing." India's current account deficit worsened to 1.9% of GDP in FY18, from 0.6% in FY17 and is forecast to deteriorate further to 2.8% this year.

It said that with the US Federal Reserve raising policy rates to 2-2.25%, the existing interest rate of 3-3.5% on FCNR deposits of 3 years maturity was not adequate. It suggested higher interest rates on such deposits.

"Given strong appetite among non-resident Indians, either a bond or a special deposit could be considered," it said suggesting bonds that have been issued earlier as well. The Resurgent India Bonds of 1998 or the Millennium India Deposits raised of 2000, raised $5 billion each. ing USD 5 billion. In The special FCNR of September 2013 brought in over $30 billion.

CII suggested the government negotiate with the US to seek relaxation to work with Iran and Russia on Rupee denominated oil imports or even barter for oil. It called for measures to boost exports and make FDI attractive, mooting lower corporate tax on MNCs and suspend the cap on royalty payments for listed entities.