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Allowing the rupee to strengthen can help contain the creeping inflation



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The sudden spurt of volatility witnessed in the Indian currency market in the last week of August drives home the truth that it is not possible to control market forces endlessly. The Reserve Bank of India had been trying to rein in rupee appreciation over the last five months, but the currency gained almost 5 per cent in this period. This was due to a host of factors, including strong foreign portfolio flows, declining crude oil prices, increase in external commercial borrowing, and the weakness in the dollar. The rally until August was, however, gradual. The sudden sharp spike of almost 2 per cent in just a few sessions in August indicates that the Central bank is going slow with its dollar purchases and is willing to let the rupee appreciate a little. Over the last five months, the Central bank had followed the strategy of buying dollars to bolster its forex reserves as well as to contain rupee appreciation. It has net-purchased \$67 billion between March and June this year, as a result of which forex reserves currently stand at \$537 billion. But the Central bank appears to have stopped intervening in the foreign exchange market of late, owing to a few reasons. One, with a sufficiently robust forex kitty at its disposal, for use in the event of a financial market contagion, the RBI can now afford to rest a little easy. Two, with global central banks, including the Federal Reserve, vowing to keep infusing money into their economies to contain the negative impact of the pandemic, external threat to the currency appears lower. The third factor that is likely to have influenced the Central bank is the impact of dollar buying on domestic inflation. With the consumer price inflation at 6.9 per cent in July, the RBI needs to exercise caution over increasing the supply of rupees as a fallout of its foreign exchange

management. In the prevailing context, it may not be a bad idea for the Central bank to stop trying to keep the rupee weak and instead allow it to find its market-determined value. The positive effect of a stronger rupee on bringing down import-induced inflation and improving the trade deficit needs to be borne in mind.

Meanwhile, the RBI also needs to review the allocation of assets held as foreign exchange reserves. Almost 92 per cent of the reserves are held as foreign currency assets (excluding gold and SDR), which are predominantly parked in dollar-denominated securities. The income from forex assets is expected to have slipped in recent years due to declining interest rates in the US and other countries. A more proactive and dynamic management of these assets would be desirable. The portion of forex reserves held as gold, which is under 7 per cent, can be raised to reduce concentration risk.

Loyalty test: On Congress and reform

The Congress should seek to benefit from the agenda of the reformists instead of fighting it

The concerns regarding the functioning of the Congress raised by 23 of its senior leaders appear to have been validated by the hostility generated against them by a coterie around the Nehru-Gandhi family. Rahul Gandhi, the de-facto decision-maker behind his mother, has always claimed to be in favour of open discussions and collective leadership in the party. Far from living up to that claim, he led the coterie in questioning the timing and intent of the reformists who did little more than echo his own views about the party's problems. Mr. Gandhi, often accused by the Bharatiya Janata Party (BJP) of ill intent and bad timing that help the enemies of India whenever he raised valid questions about the country's economy, national security and social harmony, must be the last person to allow the use of the same toolkit to settle an internal debate in the party. No one, least of all well-wishers of the Congress party, would find it difficult to disagree with the issues raised by the party leaders such as the erosion of the party base, particularly among the youth, a drift caused by the absence of a full-time president, the dismantling of all forums for discussions in the party, concentration of power, and the disuse of the merit-cum-consensus method of appointments within the party. While the Congress is crumbling, the BJP is advancing its contentious agenda, these leaders pointed out.

Mr. Gandhi thinks that a coterie undermined his fight against the BJP in 2019. Right or wrong, obsessing about that thought would further erode his capacity. He has shown the courage of conviction to consistently articulate a critique of the Narendra Modi government. But articulation is only the beginning, and mobilisation is the name of the game, and the Congress needs to get its act together. The notion of a conflict between loyalists and dissenters is being peddled by a gang of self-serving leaders to explain the churn in the Congress. The real dialectic is between reform and status quo. Those who may not play the obsequious roles conventionally scripted for a Congress leader

are Mr. Gandhi's greatest allies if he were to push for the party's revival. It is possible that reformists also have a career agenda, but that is no sin in politics. Mr. Gandhi's whole idea of opening the doors of the Congress to fresh talent and new energy would ring hollow if people such as Shashi Tharoor, Kapil Sibal and Manish Tewari are put to an archaic loyalty test that clears the crooked as easily as it bars the upright. It is such misplaced understanding of loyalty that drove mass leaders such as Mamata Banerjee and Sharad Pawar out of the party. It is time Mr. Gandhi appropriated their agenda and led the reformists rather than fight them.

Partial relief: On AGR dues

AGR dues should not be allowed to impair customer-centric investments in telecom

The Supreme Court's decision this week to allow telecom service providers **10 years' time to settle their adjusted gross revenue (AGR) dues** to the government comes as a partial relief to the debt-laden industry. This will give the older providers, especially Vodafone Idea, the crucial breathing space to figure out how they can reconfigure their business plans to stem the relentless flow of operational losses and garner the resources to make the sizeable annual payments to the Centre over the next decade. However, in setting a time frame, the Court, which acknowledged the troubled landscape facing the lynchpin industry, seemed to brush aside both the companies' requests for a longer horizon as well as the Centre's well-deliberated recommendation for a 20-year repayment period, merely terming it "excessive". The government having realised the enormity of the problem and its potential for significantly disruptive consequences to not just the industry but the larger economy as a whole had thrashed out the matter at various levels, including within the Cabinet, before submitting its view. Without naming any company, the Centre had made clear that were the AGR dues to be sought at one go, it could well push a service provider into insolvency proceedings. Such a turn could potentially impact millions of subscribers, with the surviving operators finding their capacities stretched to handle a sudden surge of mobile portability requests while simultaneously maintaining quality of service.

The Indian Banks' Association (IBA) had also explained its position in seeking a judicious and non-disruptive outcome. The IBA represented the various lenders, who have much at stake given that industry debt including that which is under resolution as part of the Insolvency and Bankruptcy Code process amounts to over ₹4-lakh crore. The Court, in its order, did take cognisance of the multiple threats to the industry's well-being: the depressed levels of average revenue per user; the fraught competitive landscape where a new entrant's tariffs had triggered a price war hurting revenues; a surge in data usage even as the price of such data plans remained almost unviably low; and an overall diminishing ability to continue to invest in capital spending for infrastructure upgradation and new technology including the upcoming adoption of 5G networks. While the companies themselves are yet to decide on whether to seek a

curative review of the latest verdict, the future of India's ambitious dreams of enabling a pan-Indian digital ecosystem that seamlessly connects the remotest rural inhabitant with a plethora of e-enabled services hinge on ensuring the industry stays healthy and vibrant. For that, the government needs to look beyond the AGR issue and reimagine the way it prices and seeks to monetise the precious yet immutable public asset of radio spectrum in future.