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'CORRECTION' IN RE TO AID CUT DEFICIT: RAKESH MOHAN

Former RBI deputy governor Rakesh Mohan tells CNBC-TV18 that the fall in the rupee is to be seen as a correction, He explains that the new level of the rupee vis-à-vis will make the country competitive and aid in reducing the current account deficit

Mohan adds that the RBI has a very tough road ahead and needs to use every option that is available.

Below is an edited transcript of the interview on CNBC-TV18. Also watch the accompanying video.

Q: What are your thoughts on the rupee? It has pulled back, but do you believe that this is sustainable? What do you think is driving the pullback?

A: The recent movement of the rupee has to be viewed in the perspective of a correction rather than a fall. Remember, currently most people compare the current level of the rupee to the level about a year ago, which was around Rs 45 to the dollar.

But in fact the rupee had actually gone to Rs 50 a dollar in 2008-2009 and since then there has been, on the one hand a much higher inflation than before and on the other hand, the current account deficit has been increasing to around 4%.

To my mind, the recent movement of the rupee is to be seen as a welcome correction that will make India competitive and aid in the reduction of the current account deficit.

Q: What, in your assessment, would be the fair value of the rupee at this point of time given the kind of factors that you have listed?

A: I wish I knew since I managed the rupee for seven years from 2002 to 2009. I never knew it then so I am not likely to know it now. So, I would say that the level of exchange rate that, along with other policies in the country, corrects the current account deficit to somewhere around 2-2.5% could be called a reasonable exchange rate.

Q: What do you think is going to be the mindset of the RBI when it presents its credit policy ?

A: The RBI certainly have a very tough road ahead and therefore its extremely imperative for it to adopt a role where it provides confidence to the economy and reduces expectations of inflation in the economy otherwise we are going to have great deal of difficulty in the

medium- to long-term.

Q: Are you ruling out the possibility of any kind of a reduction at least as early as June 18?

A: Inflation is at an uncomfortably high level. One doesn't see any kind of tendency in inflation to come down and therefore it is a tough task. At the same time, the RBI has to be conscious of the fact that industrial production growth is not doing well at all.

What I would expect and hope is that this exchange rate correction will itself have a role in reversing that tendency.

Q: Would you then say that this clamour for more aggressive intervention by the RBI is misplaced?

A: I would put it differently. In my view, the RBI ought to be in the market on a regular basis on both sides and directions. It is very important for the RBI to stabilise the currency so that people have confidence that the market is stable.

At the same time, it has to ensure that the rupee does reflect fundamentals and is not overly affected by short term movements in the capital flows.

Q: There are a lot of suggestions on whether the RBI ought to weigh the option of selling dollars directly to oil marketing companies? Do you believe that is the way forward at this point in time given our situation?

A: I think that option has been used in the past and useful now.

Q: Do you believe that exercising those options are warranted at this point in time?

A: Once again, one doesn't have enough information from the outside. But what I would say very clearly is that if the RBI finds a option, it should not be shy of using that option.