



**FEDERATION OF INDIAN  
EXPORT ORGANISATIONS**  
(Set up by Ministry of Commerce,  
Government of India)

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## FROM THE PRESIDENT'S DESK >>>



### My Dear fellow Exporters,

At the outset let me offer my appreciation to all Federation members who have weathered the economic hailstorm that is sweeping most of the world.

Over the past few weeks, we have all been waiting for the RBI's Monetary and Credit Policy. As anticipated the RBI has hiked short term lending rates and the Cash Reserve Ratio (CRR), however, whether the 25 basis points increase across the board would be sufficient to contain the accentuating inflation which is at an average WPI of 8% and a CPI of over 13% is a matter of debate, but will lead to increase in the interest rates. I hope the guidelines on forex derivatives to be announced in June 2010 as stated would come up with some practical recommendations for the MSME sector in view of the volatility and current rupee appreciation which shows little sign of abating. Enhancing collateral free loans up to Rs 10 lakh from the existing Rs 5 lakh would benefit the micro sector if implemented in the right earnest. I welcome the implementation of the base rate which will ensure transparency and likely to benefit MSME segment with reduced cost of credit but was surprised to note that concessional export credit facility presently available under PLR regime has been proposed to be withdrawn. This will give a jolt to exports as despite concessional facility, we are getting credit for exports at much above international benchmarks. I have taken it up with Commerce and Finance Ministry and hope it will be addressed quickly.

The rise of the rupee is a matter of concern. It has taken the export sector by surprise, eating into their operating margins and de-stabilizing export pricing. Studies indicate that every 10 paise appreciation in the rupee negates \$1 upward movement in international prices. While the rupee's appreciation appears to be inevitable in the present circumstances, it can be contained by measures proposed by FIEO. For instance, the Government can provide a fixed rate of exchange at Rs 47.50 to a US\$ for exports on an optional basis for a year and regulate the FI investment so that it stays in India for a minimum period of two years. After all, the collapse of the South East Asian economies (1996/1997) and its domino effect on adjoining countries in the region is still fresh in public memory and the RBI in its wisdom needs to take measures on a war-footing to preclude any re-run of the past. An alternative remedy could be a 1 per cent charge on all non-FDI and ECB inflows, and this number could be calibrated up or down depending on the volumes of flows.

We feel the RBI's concern for the volatility of the rupee is also reflected in a 12 April, 2010 Circular where maintenance of collateral by Foreign Institutional Investors (FII's) for transactions in the cash segment have been made mandatory. However, this may not be sufficient as the rupee is outperforming many of its peers in South East Asia and adjoining countries much against the fundamentals of economics where higher current account deficits and inflation may lead to a depreciating currency value. The RBI may consider adequate measures to stabilize the rupee as the cumulative impact of the inter play of these factors may result in the vicious cycle of inflation – high rates of interest, thereby higher arbitrage opportunities to FII's – more appreciation of the rupee which may ultimately work to the detriment of the export sector.

In my pre-policy meeting with RBI Governor Mr D. Subbarao, I had said that urgent measures are required to bolster the exports sector, which has been severally affected by the global economic slowdown and currency fluctuation. Indications are there that after the fiscal crisis, the world is entering a currency crisis and the RBI should safeguard against it. Also, the Governor should intervene positively and expeditiously in matters concerning exporters. I must caution members that export credit as a percentage of net banking credit has fallen from 5.5 per cent as on March 28, 2008 to 4.6 per cent as on March 27, 2009 and further to 4.1 per cent as on January 15, 2010. The outstanding export credit as on March 28, 2008 was Rs 1,29,983 crore, a growth of 23.9 per cent over the previous year. The export credit as on March 27, 2009 was Rs 1,28,940 crore, a fall of 0.8 per cent from the previous year. On January 15, 2010, it was Rs 1,24,360 crore, a decline of 3.6 from the March 2009 figure.

The first six months of this fiscal have seen an acceleration in industrial growth since a trough in March 2009, which is largely driven by private consumption and government spending but with the pick up in corporate capex and exports the growth trend would be more sustained provided the global market demand remains consistent. However the situation in the Eurozone and Japan is making exporters jittery. How long Emerging Market Economies can pull up exports is yet to be seen?

FIEO is organising First Mega "Made in India" show in Dubai from 8th to 10th June 2010 which will be inaugurated by our hon'ble Commerec & Industry Minister Shri Anand Sharma. The event will showcase products and services of companies such as Tata Motors, Ashok Leyland, Wipro, TCS, Raymonds, J K besides hundreds of small and medium segment enterprises. The "Made in India" show also has component of investment, Indian cuisine, folk music and dance exhibiting our potentials in diverse areas.

I will urge all exporters to participate in it and help us in our endeavour to make it. A huge success befitting its stature.

**A. Sakthivel**  
PRESIDENT