# Press Release

## COVID-19 unlikely to put rupee under ventilator

**INR-USD may breach 80 only if virus disrupts the economy beyond a quarter**

The COVID-19 pandemic has already brought in extraordinary disruption in the world economy and has put the global capital markets in turmoil. With funds in a hurry to exit emerging market assets and return to safer haven like the US treasuries, there has been a very sharp impact on most of the EM currencies including the Indian rupee. Since the beginning of the current month and the intensification of the COVID-19 pandemic globally, the rupee had depreciated by over 5% and crossed the threshold of Rs. 76 a dollar albeit it has partly climbed back of late due to the stimulus measures announced by RBI and the Government.

In the opinion of Acuité Ratings, the concerns on the depreciation of the rupee are not significant on a relative basis since dollar outflows are rampant across the developing nations. As compared to the 5.3% depreciation of the rupee since March 1, 2020 (till March 25, 2020), the depreciation of a basket of six currencies in developing countries has been visibly higher at 12.9% over the same period. The rupee resilience is reflected in the fact that the foreign currency reserves have actually increased from USD 442 billion to USD 447 billion over the last one month (Feb 14 – March 13, 2020). Further, the current account deficit for India which stood at a high of 4.8% of GDP in FY2012 progressively improved to 0.6% in FY2016 and while it has climbed up to 2.1% in FY2019, it is estimated to remain lower in both FY20 and FY21 given the plunge in international oil prices. **Says Suman Chowdhury, President, Acuité Ratings & Research "We believe that while the global risk-off environment will continue to make the rupee volatile, the modest current account deficit, the healthy reserves and importantly, the stimulus package being provided by RBI for COVID-19 crisis is likely to lead to fresh flows from FIIs and offset the downside risks."**

Acuité Ratings has attempted to assess the exchange rate volatility under a few different scenarios; the key variables considered in this analysis include Oil Price, Fed Balance Sheet, USD-Yuan Exchange Rate and Net FII inflows. **Says Karan Mehrishi, Lead Economist, Acuité Ratings "The scenario analysis indicates that if the impact of the pandemic is particularly severe with a lockdown in India for the whole of Apr-Jun quarter along with global oil prices averaging at USD 40, the rupee may inch up to the band Rs 81-83 per USD during this period.** However, if the average oil prices were to come down to USD 30, the rupee-dollar is likely to stabilize in the band Rs 77-78 by September 2020. **Adds Mr. Mehrishi "In a best case scenario where the virus attack peters out within the next few weeks and the shutdown is quickly lifted, the rupee can actually bounce back to the levels of Rs. 71-73 per USD."** Even if the oil prices were to unexpectedly rise on the back of OPEC production cuts in such a rapid revival scenario, the rupee is likely to come down to the band of Rs. 73-74.

A sector-wise analysis by Acuité Ratings on the impact of the rupee depreciation indicates that if the exchange rate were to remain beyond Rs 75 levels, there would be an adverse impact on the chemical, engineering goods, electrical machinery and electronic goods sectors where the scale of imports is significantly high. On the other hand, the sectors that will benefit from the rupee depreciation are clearly the export oriented businesses such as IT services, textiles, leather, pharmaceuticals and some agro commodities.

**About Acuité Ratings & Research Limited:**
Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings Limited)* is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in BKC, Mumbai.

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