

What is Capital Account Convertibility - basics

There is no formal definition of capital account convertibility (CAC). The Tarapore committee set up by the Reserve Bank of India in 1997 to go into the issue of CAC defined it as the freedom to convert local financial assets into foreign financial assets and vice versa at market determined rates of exchange. In simple language what this means is that CAC allows anyone to freely move from local currency into foreign currency and back.

Objective of CAC

The ultimate objective of capital account convertibility, however, should be to deepen and integrate financial markets, raise access to global savings, discipline domestic policy makers, and allow greater freedom for individual decision-making. In order to understand why CAC is necessary, it is helpful to take a historical perspective. Relative to world output, global capital flows were much larger before the First World War, and they, along with the gold standard limited the independence of domestic macro policy, but facilitated trade. But during the wars, and the great depression, as destabilizing movements in capital occurred, more and more countries put controls on capital movements in order to gain freedom to stimulate domestic economies. Unfortunately, in many countries, the stimulus turned inflationary as income groups fought to raise or maintain their shares, and governments accommodated these demands. Moreover, as world trade and capital movements expanded again, these controls became porous and sometimes counterproductive. But the problem with capital flows is that they can be destabilising -- especially short-term capital movements. If a country is not doing well, a cumulative flight of capital can confirm the fears that provoked it. Still, there has been experimentation with different international mechanisms to minimize fluctuations and the consensus is that nations with sound fundamentals have been able to benefit from capital flows.

CAC as an emotive issue

CAC is widely regarded as one of the hallmarks of a developed economy. It is also seen as a major comfort factor for overseas investors since they know that anytime they change their mind they will be able to reconvert local currency back into foreign currency and take out their money.

In a bid to attract foreign investment, many developing countries went in for CAC in the 80s not realizing that free mobility of capital leaves countries open to both sudden and huge inflows as well as outflows, both of which can be potentially destabilizing. More important, that unless you have the institution, particularly financial institutions, capable of dealing with such huge flows countries may just not be able to cope as was demonstrated by the East Asian crisis of the late nineties.

Following the East Asian crisis, even the most ardent votaries of CAC in the World Bank and the IMF realized that the dangers of going in for CAC without adequate preparation could be catastrophic. Since then the received wisdom has been to move slowly but cautiously towards CAC with priority being accorded to fiscal consolidation and financial sector reform above all else.

Capital Account Liberalization

First of all, it may be useful to remind ourselves of what economists would think of as the classic economic benefits of capital mobility

(i) *Savings – Investment Imbalances.* Capital flows represent an inter-temporal trade between two countries; they allow a country that has excess savings in a given period to transfer these savings to another country which has excess investment opportunities. Since the rate of return in the latter country is presumably higher than in the former, both countries gain as this

trade takes place. Underlying this trade are the classical forces of thrift and productivity. This is a process that ought to be capable of giving the world great benefits in the coming decades. As we see the world today, there will be very big demographic changes taking place; we already see a rapid process of aging in the industrialized world, but we have not yet reached the position where the "baby-boomers" are in the retirement phase of their life cycle. They are in the pre-retirement phase which is the highest saving phase, and which also has relatively low investment demands. There is, therefore, a presumption that developed countries as a group are going to generate surplus savings. In contrast to that, you have much of the developing world which is in a position to move into the catch-up phase of the growth process in which urbanisation and industrialization – capital intensive processes - can proceed very rapidly, in which one expects to have high rates of return potentially available. So, there ought to be a possibility of mutually beneficial capital flows.

(ii) *Risk Diversification.* The other big source of gain from international capital movements is in terms of risk of diversification. It is important to point out that, in principle, one can have risk diversification without any net transfer of resources. It is perfectly possible to have people in one country lending to another and capital flowing back from the second country to the first, and those flows can in principle be matched, but investors in both countries nonetheless end up holding a different set of assets which diversifies their risks more effectively. Thus, unlike flows of savings and investment, which necessarily involve current account imbalances if they are to achieve their objectives, the risk diversification - type of capital flow does not necessarily involve current account imbalances and a build up of net debt positions; one can still have welfare gains without any net transfers.

(iii) *Gains from FDI.* Finally, in the economists' classical discussion of the gains of capital mobility, one should mention separately the gains from FDI. These gains come about not so much as gains from transferring the capital, for they can be achieved even if a multinational company moves into another country and raises all the capital locally. Very often they do raise capital locally; this is not always a process that involves large international flows of capital. But, once again, even without a net transfer, it is possible to have welfare gains if the multinational company is bringing into the country technology, know-how, managerial expertise, access to markets, some set of skills which are not available in the local country. So, again, we have a possibility of welfare gains without a net capital flow. In fact the net capital flows associated with FDI have been recently very substantial, but this is not an inherent part of the process.

It is possible to get most of these gains, of all three types, without going all the way to complete liberalization of the capital account (capital account convertibility). One can perfectly well have large net flows of capital, and certainly the gross flows motivated by diversification or FDI, while still continuing to have some form of controls on short-term capital movements. There is a tendency in the literature to assume that this is an all or nothing decision, where the capital account is either completely closed or completely open. But those are not the only policy options, intermediate solutions are possible too. As so often is the case, one should indeed search for an intermediate solution.

India's position in CAC today

Convertibility of capital for non-residents has been a basic tenet of India's foreign investment policy all along, subject of course to fairly cumbersome administrative procedures. It is only resident--both individuals as well as corporators-- who continue to be subject to capital controls. However, as part of the liberalization process the government has over the years been relaxing these controls. Thus, a few years ago, residents were allowed to invest through the mutual fund route and corporates to invest in companies abroad but within fairly conservative limits.

Buoyed by the very comfortable build-up of forex reserves, the strong GDP growth figures for the last two quarters and the fact that progressive relaxations on current account transactions have not led to any flight of capital, on Friday the government announced further relaxations on the kind and quantum of investments that can be made by residents abroad. These relaxations are to be reviewed after six months and if the experience is not adverse, we may see further liberalisation and in the not-too-distant future full CAC.

Capital account convertibility — Why it's better for India to go slow

THE international financial system is in a state of introspection, jolted by several financial crises caused by violent capital movements over the last two decades. On their part, Indian policy-makers are also in a state of revisionism and are moving the country to greater capital account openness after several decades of extensive controls.

This article examines the arguments in favour of and against full capital account convertibility and, considering India's experience with partial convertibility in the 1990s, concludes that it would be in India's interests not to move to full capital account convertibility in the near future.

Gains from full mobility: Theoretical arguments...

The proponents of full capital account convertibility advance these arguments in its favour:

An arbitrary (i.e. pre-capital mobility) distribution of capital among different nations is not necessarily efficient, and all countries, irrespective of whether they borrow or lend, stand to gain from the reallocation caused by freer capital mobility. National income goes up in the country experiencing capital outflows due to higher interest incomes, while that in the debtor country increases as the interest paid is less than the increase in output.

Capitalists in the labour-abundant economies tend to lose with a fall in the marginal productivity of capital, and the opposite happens in labour-scarce countries, so that developing nations, which are usually capital-scarce, are doubly blessed under unhindered mobility of capital — the inflow of capital raises the national income and produces a healthy, egalitarian impact on income distribution as well.

It is argued that if there is only a small correlation between the returns on investment in different countries, risk can be reduced by the ownership of income-earning assets across different countries. Free mobility of capital, thus, helps reduce the risks that each country is subjected to.

Finally, it is argued that when full capital account convertibility is in place, government profligacy and distortionary policies are likely to be followed by currency crises that threaten to make the government highly unpopular. Therefore, under capital account convertibility, the salubrious effects of capital mobility are magnified through a change in domestic policy in the right direction.

... the evidence and the counter-arguments

This rosy picture painted by traditional neo-liberal thinking is sullied when we look at what actually happened to developing nations that have gone the full-capital account convertibility way in the 1980s and 1990s.

In a widely quoted study, Dani Rodrik (1998) finds little evidence of any significant impact of capital account convertibility on the growth rate of a country. Worse, a 1999 World Bank survey of 27 capital inflow surges between 1976 and 1996 in 21 emerging market economies found that in about two-thirds of the cases, there was a banking crisis, currency crisis or twin crises in the wake of the surge.

Since the early 1970s, there have been several crises triggered by speculative capital movements: the Southern Cone financial crisis in the late 1970s; the Mexican crisis of 1994-95 and the 'Tequila Effect'; the East Asian crisis of 1997; the collapse of the Brazilian real and its impact on the rest of Latin America; the Russian crisis of 1998 and the Argentine crisis of 2001.

Here are the theoretical counter-arguments why full convertibility is correlated with the crises and why, even otherwise, it is not such a good thing:

Contrary to the assumption of the neo-classical model, a large volume of capital inflows into developing countries has actually been used for speculative purposes rather than for financing productive investments.

Capital account convertibility exposes the economy to all sorts of exogenous impulses generated through financial channels, as domestic and foreign investors try to shift their

funds into or out of a country. Since financial markets adjust very quickly, even minor disturbances may exacerbate into major ones.

Under flexible exchange rates, capital inflows lead to an appreciation of the domestic currency directly. On the other hand, in a fixed exchange rate regime, increased capital inflows lead to monetary expansion and price inflation (unless there is substantial unutilised capacity), which also causes a real appreciation. In both cases, therefore, capital inflows tend to cause a real appreciation and the possibility of swollen current account deficits because of cheaper imports and uncompetitive exports which, if not controlled in time, will lead to loss of confidence and capital flight.

Because of the massive volume and high mobility of international capital, it has been observed that the government tries to play it safe by keeping interest rates high, thus discouraging domestic private investment. The government also desists from spending on public investment because, through an expansion in government spending, it could send signals of impending increases in fiscal deficits that have the potential of destabilising capital markets and inducing capital flight.

Policy implications for India

The experience with liberalisation of inward capital flows in India has been similar to the economies of Latin America and East Asia, only the magnitude of these flows has not been large enough to cause serious macro and micro management problems.

Based on the experience of other countries, the following issues are of concern for India:

Flexibility in exchange rate: To prevent a nominal appreciation because of the capital inflows, the RBI has been adding billions of dollars to its reserves; the foreign exchange reserves with the RBI are a whopping \$69 billion.

However, intervening foreign currency purchases to stabilise the exchange rate and accumulation of forex reserves have implications for domestic monetary management,

which can be seriously impaired by divided short-term monetary responses during a capital surge.

On the other hand, the option of a more flexible exchange rate would cause an appreciation in the value of the rupee, which may hurt exports.

Hence, the usual macroeconomic trilemma (Obstfeld, M and A. M Taylor 2001) where only two of the three objectives of a fixed exchange rate — capital mobility and an activist monetary policy — can be chosen. Since the government has already liberalised inflows of capital to a large extent, the authorities could attempt to deal with this problem in one of the following ways: It could begin relaxing capital controls, allowing individuals to exchange rupees for dollars. Indeed, some piecemeal measures in this direction have already been taken. But this, perhaps, is a risky proposition.

For one thing, the embrace of full convertibility is itself likely to bring more dollars into the country in the initial phase and add to the existing upward pressure on the rupee. More important, given the lack of regulatory capacity, such convertibility runs the risk of a future financial crisis that may scuttle the growth process.

Alternatively, the government could tap this opportunity to liberalise imports. Further liberalisation will stimulate imports and create the necessary demand for dollars, mopping up the excess supply of dollars and relieving the government of the burden of low-yielding foreign exchange reserves.

Inasmuch as the imports are used as inputs for further exports, the move will kill two birds with one stone — it will relieve the upward pressure on the rupee, and bring the usual efficiency gains. In this regard, therefore, import liberalisation seems to be a distinctly better option.

Banking and capital market regulatory system: The relatively greater contribution of portfolio capital towards India's capital account, and the fact that these inflows could increase to significant levels in the future as India's financial markets get integrated

globally, show that an important sphere of concern is their skilful management to facilitate smooth intermediation.

Banks intermediate a substantial amount of funds in India — over 64 per cent of the total financial assets in the country belong to banks. However, many Indian banks are undercapitalised, and their balance sheets characterised by large amounts of non-performing assets (NPAs).

Unless banking standards are duly brushed up, viable competition introduced and government interference reduced, it would be reckless to go in for full capital account convertibility, which requires flexibility, dynamism and foresight in the country's banking and financial institutions.

Transparency and discipline in fiscal and financial policies: It is well known that the last thing that a government wanting to gain the confidence of investors should do is to be fiscally imprudent. However, New Delhi does not seem to be paying heed to this consideration at all.

The ratio of gross fiscal deficit to GDP increased to 10.4 per cent in 1999-2000 from 6.2 per cent in 1996-97 and 8.5 per cent in 1998-99, and has hovered around the 10 per cent figure since then. Such high fiscal deficits can prove to be unsustainable and frighten away investors.

Hence, there is an immediate need for putting brakes on government expenditure, and until that has been satisfactorily done, opening up the capital account fully would carry with it a big risk of sudden loss of faith of investors and capital flight.

Caution on outflows

Whatever the apparent theoretical benefits of capital account convertibility, they have not yet been vindicated by the actual empirical evidence; rather, the experience of the countries in the developing world that have experimented with capital account convertibility has been that of increased market volatility and financial crises.

Moreover, at least a part of the large inflows of capital into India are a consequence of the recessionary conditions elsewhere. The country's macroeconomic fundamentals, though better than before, are not good enough to warrant long-lasting confidence from foreign investors. The reform process is not proceeding with adequate speed, banks are saddled with large volumes of non-performing assets, the financial system is not deep or liquid enough and the country ranks high in the list of corrupt nations.

Once the conditions in the rest of the world improve, and the interest rate differentials between India and the rest of the world narrow further, this capital may move on to greener pastures. Hence, one cannot bank on the continuous supply of foreign capital to finance whatever outflows occur from the country.

Therefore, we believe that India should be extremely cautious in liberalising capital outflows any further.

While it should leave no stone unturned to promote inward FDI, which, because of its very nature, is less susceptible to sudden withdrawals and also tends to promote productive use of capital and economic growth, it should be wary of short-term capital flows that have the potential to destabilise financial markets

The 'slow and steady' stance that the RBI has taken towards capital account convertibility is to be appreciated.

It must be emphasised that only over time will the Indian economy be mature enough to be comfortable with full capital account convertibility — financial markets will deepen, macroeconomic and regulatory institutions grow more robust and the government will learn from past mistakes.

The Government would do well to focus at present on the fundamental processes of institutional development and policy reform because, in the long run, these would serve the country better than an early move towards full capital account convertibility.

Capital account convertibility -- a far cry

The million dollar question which is top most on everybody's mind is what is the realistic external value of the Indian Rupee ? And who is to decide this ? Well all governments have meant well when they have said that the Rupee should ideally find its own value and be decided by the free forces of demand and supply. But it is well said than done. Which government till today or central bank has been able to wash its hand off in deciding Rupee value?

RBI for years on has lost several billions of foreign exchange reserves in arresting the Rupee fall though in vain. The central bank has decided that the Indian industry does not want a devaluation of the currency and a mere 7-10 per cent slow depreciation in the currency would be satisfactory as this would lead to a more realistic level. But is this form of thinking correct especially at a time when dollar denominated exports have underperformed and trade deficit today is at a high of around \$9 billion. A notionally competitive Rupee is one aspect of good trade performance. In such situations RBI should be the sole regulator of the exchange value and should not be roped in by political lobbies.

But a look at today's events will show that RBI is faced with situations of wars and the government falling on which it has no control thus adding a hurdle to their endeavour to ensure stable financial markets. RBI's role gets complicated when faced with complicated tasks of maintaining a stable Rupee and simultaneously ensuring soft interest rates. Any hike in interest rates will adversely affect the government's borrowing programme. The only option is foreign currency flows will reduce the pressure on the Rupee. This is provided the foreign fund managers are comfortable with the political situation and judge the government's intentions in the right earnest.

Towards CAC..

Relaxation in guidelines on ADRs/GDRs and allowing Indian companies to use US\$100 million from ADR/GDR funds for acquisition abroad is a stepping stone for the Rupee to become convertible on the capital account. Removing the criteria of a three year track record will make more companies tap this route. The government announced these relaxation with good intentions but they have come at a time when global markets are fast moving and mega mergers and amalgamations worth billions of dollars are taking place the worldover resulting in Indian companies standing no chance with mere offerings of \$100 million. Thus, at this juncture the dream of Indian companies becoming MNCs is a far cry. The government realising that the forex reserves were drying up announced the external commercial borrowings (ECB) programme which later started putting pressure as there was a drain on the forex reserves which was later replaced by the GDR programme. Pre-conditions attached only saw core companies remain outside the scheme. It was only in 1996-97 when the foreign exchange reserves started to show an improvement that the government took bold initiatives and relaxed the guidelines. But then they were faced with a bigger problem of demand recession which proved a dampner for raising equity abroad as excess capacities existed in the economy.

What went wrong here

Why did this happen especially at a time when growth was picking up and forex reserves were fairly comfortable? Tight monetary policy, stringent pre-conditions attached to the ADR/GDR route, high interest rates and decline in both public and private investments was a grave mistake. This all resulted in Indian companies being denied to borrow cheap overseas funds. Public limited companies were worst affected as they were forced to borrow from the domestic market at high interest rates burdening them with equal high interest liabilities. The government also reduced plan outlays which forced public companies to heavily depend on market borrowings to meet their capital investments.

What was the fallout of all this? More public companies became red facing huge debt burdens only because of the shortsighted policies of the government.

Here again that the government gave its age-old justifications that a tight budgetary outlay was being allocated to curb fiscal deficit and to bring about monetary harmony in the economy which would help curtail its high external debt burden of around \$90 billion. But as usual the government failed in its efforts and domestic debt shot up and the country lost the opportunity of raising cheap overseas funds.

World scenario

Today the industrialists are euphoric about the liberalised guidelines as this provides the Indian companies an opportunity to become global players. Today the world over stockmarkets are volatile and Indian companies have yet to penetrate listing on world stockmarkets. World MNCs would like to guard the interests of their own companies and would like to ensure maximum penetration in the overseas market even in the field of Information Technology where India has a clear edge. If the government has to succeed it will have to loosen their grip on the domestic money market and try and reduce the interest rates in which a beginning has been made -- a one per cent reduction was announced in the PF rates which will cool off the tight monetary conditions prevailing in the economy. But with further cuts in interest rates likely it will no longer be attractive for an Indian entrepreneur to tap overseas markets as world interest rates would work out to be the same as in the domestic market. Thus, expanding the equity base would not be an attractive option for an Indian entrepreneur through the ADR/GDR route. This should have been done way back in 1995-96 when interest rates were high at 16-18 per cent. Today there is no danger of a run on forex reserves as they are quite comfortable at \$40 billion and even if there is a sudden panic on Indian paper floated overseas there is no major cause for concern.

Today government is still hesitant about moving towards capital account convertibility as it has not completed its homework despite the fact the Indian economy is fairly stable

politically, growth is picking up in most sectors and there are no major volatile shocks being experienced in the economy. Why then the delay ? Dilly dallying on the part of the government will once again see India losing out on this golden opportunity of improving its world rating.

But there are many complications involved in the process and unless and until the government is sure of the possibilities, it should not take a hasty decision which would prove to be expensive in the long run. Today foreign companies are allowed to be listed on the Indian bourses. This could possibly mean that the Indian Rupee is being allowed to be exported for the first time. A foreign company raising money in India can raise only Rupee funds. If they have a manufacturing unit then the intention is quite clear what if they are a non-production based company what do they do with the Rupee funds if they are not allowed to take them out of the country. Well all these are steps in the direction of Indian Rupee moving towards capital account convertibility (CAC).

External

environment

Currently, a lot of ground work is being done for foreign companies to get listed on the Indian bourses. India has liberalised its regime of inward flow of currencies. But, the same cannot be said about outflows. But the encouragement to expand foreign listings on the Indian stockmarkets is a clear signal that a move towards CAC is on the cards. Freeing FDI and encouraging Indian companies to raise equity abroad should provide some cushion in case there is an outflow of funds.

When the report was framed under the chairmanship of SS Tarapore there were plenty of challenging tasks ahead of them. But, today India has liberalised which will make it easy for the Rupee to move towards CAC. The gold regime has been liberalised, derivatives has been ushered and FDI nd FIIs have been allowed in more sectors. Reducing procedural hurdles and making investments hassle free is being given top most priority with respect to ADRs/GDRs. The report on CAC set a three year time frame starting from 1997-98 to move towards full convertibility. But, the Asian crisis spiked any discussion on the issue which resulted in the process getting delayed. Today for foreign nationals

CAC exists. But, the crux of the issue was to allow some flexibility for the Indian residents in effecting outward remittances.

But what is necessary at the moment is for the government to keep a check on the fiscal deficit and have a strong financial system in place so as to take a greater strain of the larger currency inflows. Unless and until these conditions are not in place it will take a while till we see Rupee fully convertible both on the current as well as capital account. Looking at the Asian crisis what is required is to have a proper sequencing of reforms and have overseas based financial sector wherein deficits are firmly in check. The government needs to wake up to this reality and not delay the matter as lags affect the credibility of a system. Indian markets are used to shocks and an entry will put things in place. Banks and stockmarkets underwent many shocks like entry of private players, FII role being enhanced and finally what happened the system absorbed the shocks and reacted positively. Fundamentals have to be in place and if a market requires proof and although RBI is conservative at present, it will react favourably in the future and eventually put CAC in place.

Today with globalisation and integration the buzzwords, dismantling economic barriers of course with adequate safeguards CAC is considered to be a sine qua non for effective economic management in the new millennium. What needs to be guarded is activities of the currency speculators and other unscrupulous players who distort the smooth working of the markets with speculation and rumours becoming major factors influencing the market. Today India is quite comfortable with its forex reserves, there is a control on inflation, financial sector reforms are in place, there exists a stringent fiscal policy and exchange policy is quite flexible. There cannot be a flight of capital as all is not in liquid form and a major part of it will be invested. But what Indian finance ministers have to look into is how to manage the capital inflows that will find their way into the developing countries. Unless and until well utilised at the right time they can create overheating in the economy which would be a difficult situation if not handled in an organised manner.

But the chief architect of the report Tarapore himself is not very confident about the financial sector of the economy and does not trust the fiscal stability. He firmly believes

that the Indian financial system will have to cross many more hurdles before CAC can be ushered in. Many argue that a wait and watch approach to put things in place will only result in India losing out.

Need for infrastructure finance

At present, there is a dire need for funds to finance several infrastructure projects which are a main foundation for future investments. Speculators and motivators will always exist and we cannot afford to waste our precious time to keep them at bay. The Asian crisis was triggered by unrestricted large inflow of foreign funds in largely unregulated and immature markets in Asia. These funds were inter alia utilised for unproductive activities, real estate boom and for creating other long-term assets. As a result, when the crisis really developed as a result of the sudden outflow of funds it led to devaluation, disruption in the growth process and social pain as assets were sold dirt cheap in distress sales. In the aftermath of the crisis many economists have voiced very strongly against CAC. It is also argued that many companies had huge funds which they invested in these Asian countries only for speculative purposes with the sole intention of destabilising these economies which triggered the crisis.

To avoid such shocks in the future what should be done is to allow only the amount of currency to be traded that is actually used up to finance global trade and services. Today it is estimated that around USD 2 trillion is moving around in various currencies and only a small part is being used up which is where the entire problem lies as it is here that speculation creeps in. Volumes in the forex markets are so large that they say that currency trading is around 20 times of world trade. The question is not of trading volumes but is it really required. True currency trading is required for world trade but unnecessary currency trading is fraught with risk. A new code to monitor speculative funds is what is required which will reduce the shocks in the future. There has to be fair amount of transparency and disclosure practices which will make the system more healthy. A better practice to bring about stability is not to monitor currency stability but to curb short-term capital inflows which could play an important role in preventing a crisis in the future.

Despite India today having a fairly high forex kitty and CPI at lows there are many other indicators that are flashing red for which India has to take a precautionous note.

Looking at the above criteria it is natural that at this stage India is still not ready to fully take on CAC. Short-term solutions are not the answer especially with the financial system still groping with high levels of non-performing assets, capital inflows practically drying up and the IMF quota already stretched to the maximum.

So the need of the hour is to have a change in the conservative nature and thinking of our banking and financial policies and restructure out macro economic policies before we opt for CAC. It will take a while for things to be put in place and once a domestic financial architecture and macro policies are put in place CAC can flow in as a natural process. Volatility and speculation once again hit the India forex markets with the Rupee seeing an all time low of 44.70 against the US\$. That's when the RBI moved in to check the Rupee fall and played heavily with the forex reserves to get Rupee back to 44. 10/20 mark. A 50 per cent surcharge on import finance and a 25 per cent surcharge on overdue export bills which would be phased out as early as possible to some extent would help correct the distortions. However essentials and government related imports have been left out from surcharge. RBI has assured the banking and exporter community that it would meet any temporary demand/supply dollar imbalances which arisedue to leads and lags in the system.

It has taken a strict view and warned banks not to develop any speculative positions in future as it would not take to any tightening monetary measures in the near future. Despite all the measures it is not a long way off when Rupee slips once again as there is a strong bias towards a weak Rupee.