Exchange Rate Woes, Euro Zone Crisis, Rising Input Costs and Fears of Interest Cost Hike Puts Exporters under Stress: FICCI Survey on Exports

NEW DELHI, June 19, 2010. After breathing easy for the last few months, Indian exporters have once again come under stress. Their feeling of concern and uneasiness is due to the large scale variation in the exchange rate, the evolving situation in Euro zone and attendant risk of slowdown in exports to that region, the rising cost of raw materials including the price of oil and the expectation of a hike in interest cost once base rate mechanism is introduced, according to the **FICCI Survey on Exports.**

The FICCI Survey, conducted in April and May 2010, saw participation from 278 companies with a wide geographical and sectoral spread. The turnover of the companies that participated in the survey ranged from Rs. 1 crore to Rs. 1,40,000 crore and the companies represent sectors like automotive, food and food processing, FMCG, textiles, metal and metal products, heavy engineering, marine products, cement, paper, pharmaceuticals and chemicals, wood and wood products.

The survey reveals that the large sideways movement in the value of the Rupee against the USD and Euro has led to severe problems. While the sudden appreciation in the value of the Rupee **affected the margins adversely as it led to lower realization** for exporters, the recent decline in the value of the Rupee caught exporters off guard and **they lost on account of forward contracts that were booked to hedge currency risk.**

To deal with the situation of currency fluctuation, exporters are taking three measures.

One, exporters are **putting dedicated forex / treasury teams in place** to help tide over the situation.

Two, exporters are negotiating hard with their clients and **evolving dynamic pricing models built in sales contracts** to take care of currency fluctuations.

Three, at least some exporters who can afford are **not converting their dollar receivables into Rupees** as the exchange rate risk at this point is simply too high.

Many exporters FICCI spoke to mentioned that **at least for exporters the central bank should give a facility like that in China of a fixed exchange rate**. This would enable them to focus on managing their business and save them from the trouble of managing currency movements.

The **evolving situation in Euro zone also does not inspire confidence**. Although the European Union and the IMF have come out with a billion dollar package to salvage the situation in the Euro Zone, the uncertainty over the growth trajectory of countries like Greece, Spain, Italy and Portugal remains. It is by now clear that **the second phase of global recovery will be slower as compared to the first phase. And this will have a bearing on pace of expansion of global trade**.

There are indications of **buyers in the EU region going slow in placing their orders**. There are also cases where **Indian companies have been asked to hold back the dispatch of consignments**. In a few other cases, **Indian exporters have had to take temporary terminals for parking goods in the EU region as buyers have refused to accept immediate delivery**.

The FICCI Survey reveals that while exporters are trying their best to look at alternate markets, they have asked government to **successfully negotiate an FTA with the EU at the earliest**. This they feel could in some way reduce the impact of an otherwise shrinking market in Europe.

The **rise in cost of inputs and industrial raw material is another major irritant** for majority of exporters. Oil prices too have been gradually increased over time and this is adding to the cost pressure.

To tide over the problem of rising input costs, exporters have requested government to look at **increasing the duty drawback and DEPB rates**.

Exporters are anticipating that once the base rate mechanism is introduced, lending rates of banks would go up. **This will be an intimidating factor if it happens in the current circumstances**. Exporters have therefore suggested that **bank loans at concessional rates should remain available to them even in the post 'base rate' period which kicks in from July 1, 2010.**

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