

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2228
ANSWERED ON:06.08.2010
CURRENCIES OF NEIGHBOURING COUNTRIES
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Will the Minister of FINANCE be pleased to state:

- (a) whether any neighbouring country has decided to make its currency flexible;
- (b) if so, the details along with likely impact thereof in the Indian Economy; and
- (c) the steps taken or proposed to be taken by Government of India in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (c) Peoples Bank of China (PBoC) in the month of June 2010 announced that on account of the gradual recovery of global economy and enhanced economic stability of the Chinese economy, it was desirable to proceed with the reform of the Renminbi (RMB) exchange rate regime and increase exchange rate flexibility, under which continued emphasis would be placed on market supply and demand with reference to a basket of currencies. The exchange rate floating bands will remain the same as previously announced in the interbank foreign exchange market

The Indian rupee has exhibited two way movements against US dollar during 2010-11 so far, reflecting the underlying fundamentals of the economy. Theoretically, the appreciation in exchange rate could make Indian exports less competitive in the international markets and vice versa. However, exchange rate is one of the several factors that determine the competitiveness of exports. The other factors include productivity growth, technological innovations, price elasticity, import intensity of exports, demand and supply conditions and global developments.

The exchange rate policy in India is guided by the broad principles of careful monitoring and management of exchange rates with flexibility, while allowing the underlying demand and supply conditions to determine its movements over time.