

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:5111
ANSWERED ON:27.08.2010
DEMAND OF FIXED VALUE FOR DOLLAR
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Federation of Indian Export Organisations (FIEO) demands fixed value for dollar as rupee keeps rising;
- (b) if so, the details thereof; and
- (c) the action taken thereon?

Answer

MINISTER OF STATE FOR FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b): Yes Sir. The Federation of Indian Export Organisations (FIEO) has stated that the sharp fluctuation in the exchange rate had put exporters in a fix and they were losing both competitiveness as well as profit on account of appreciation of Rupee. To avoid such fluctuations, FIEO had suggested a minimum lock-in period of two years for FII investments. FIEO had also suggested that an exporter opting for a fix rate for a year may be credited at Rs.47.50 to a US dollar irrespective of the market value of US \$. Such an option will provide stability on the exchange rate front to the exporters.

(c): The Reserve Bank, in consultation with the Government, is following a policy of active capital account management and a calibrated liberalization on the capital account. The current policy framework for FII investment in India is an integral part of the same. Within this policy stance, stipulating a minimum lock-in period for FII investment in India is not envisaged. Further, the current foreign exchange regime is also primarily based on market determined exchange rate mechanism where the intervention by the Reserve Bank is limited to managing excessive volatility and ensuring orderly conditions in the foreign exchange market, without any fixed or pre-determined band. Therefore, it would not be possible for providing a mechanism of fixed exchange rate for exporters. However, the Reserve Bank has ensured that there are sufficient hedging tools available (both OTC and exchange traded) in the form of forwards, options, swaps and exchange traded currency futures and currency options, for exporters and importers, amongst other market participants, to hedge themselves and mitigate their currency risk exposures.