

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

STARRED QUESTION NO:15

ANSWERED ON:08.08.2012

VALUE OF RUPEE

Baitha Shri Kameshwar ;Hazari Shri Maheshwar

**Will the Minister of FINANCE be pleased to state:**

- (a) whether Indian companies are facing pressure in foreign trade due to depreciation of Indian rupee;
- (b) if so, the details thereof and the reasons for failure of Indian rupee to remain stable against dollar;
- (c) the steps taken to check depreciation in Indian currency and the impact thereof along with the details in this regard; and
- (d) the details of the impact on the price rise due to depreciation in Indian currency and the specific steps being taken in this regard?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI P. CHIDAMBARAM)

(a) to (d): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO. 15 BY SHRI KAMESHWAR BAITHA AND SHRI MAHESHWAR HAZARI REGARDING VALUE OF RUPEE FOR ANSWER ON AUGUST 08, 2012

(a) & (b) The impact of exchange rate depreciation on Indian companies depend on a set of factors, including exchange rate and elasticity of exports and imports. Theoretically, the depreciation of a currency should boost the country's exports as goods produced by domestic companies become cheaper in the international market. Therefore, while the rupee depreciation should benefit export oriented companies, though with a lag, the same makes the imports costly for import oriented companies. In the present scenario, however, exchange rate depreciation is one of the factors affecting the performance of Indian companies. The other factors are slowdown in global and domestic demand.

The reason for the decline of rupee against US dollar is the supply-demand imbalance in the domestic foreign exchange market. This is due to widening of trade and current account deficit and slowdown in portfolio flows on account of escalation in euro zone crisis and strengthening of US dollar in the international market due to the safe haven status of US Treasuries.

(c) The Government of India and the Reserve Bank of India have taken a number of steps to facilitate capital inflows and boost exports in order to augment supply of foreign exchange to stem the decline in the exchange rate value of the Rupee. Recent measures taken, inter alia, include hike in FII investment in debt securities (both corporate and Government securities), enhancing all-in-cost ceiling for external sector borrowings (ECBs) between 3-5 year maturity, higher interest rate ceiling for foreign currency Non-resident deposits and deregulation of interest rates on rupee denominated NRI deposits. The manufacturing and infrastructure sector companies can now avail of external sector borrowing up to a ceiling of US\$ 10 billion for repayment of outstanding rupee loans towards capital expenditure. Besides, under the Annual Supplement 2012-13 to Foreign Trade Policy 2009-14, the Government has announced initiatives to boost exports to about US\$ 360 billion in 2012-13.

As a result, the rupee's exchange rate recovered to Rs. 55.8 per US dollar on July 31, 2012 from the all time low of Rs. 57.2 per US dollar on June 27, 2012.

(d) The decline in the exchange rate value of the rupee makes imports more expensive. In situations where the higher cost is passed on to the consumers, it would contribute to inflationary pressures and general price rise. It is however, not possible to specifically estimate the impact of exchange rate movements on inflation. Government has taken a number of fiscal and administrative measures to check inflation, which resulted in moderation of inflation to around 7-7.5 per cent in recent months.