GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:143
ANSWERED ON:16.08.2013
WEAKENING OF INDIAN CURRENCY
Hegde Shri Anant Kumar;Raghavan Shri M. K.

Will the Minister of FINANCE be pleased to state:

(a) the reasons for the weakening of Indian rupee and its impact on various sectors of the economy;

(b) the measures taken/proposed to be taken by the Government to arrest weakening of the currency;

(c) whether any specific action plan has been drawn by the Government to sustain economic growth in the country; and

(d) if so, the details thereof and if not, the reasons therefor?

Answer

FINANCE MINISTER(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. 143 BY SHRI M.K. RAGHAVAN AND SHRI ANANTKUMAR HEGDE REGARDING "WEAKENING OF INDIAN CURRENCY" FOR ANSWER ON AUGUST 16, 2013

The fall in value of rupee in the recent period can be explained by the supply-demand imbalance in the domestic foreign exchange market on account of elevated levels of current account deficit (CAD) and volatility in capital flows, particularly FII inflows.

The impact of exchange rate depreciation on different sectors of economy depends on a number of factors like elasticity of exports and imports, relative prices of domestic and global product etc. While theoretically exchange rate depreciation corrects the external balance through cheaper exports and expensive imports, in the current conjecture, this may not hold good as global demand is weak. Rupee depreciation increases the burden of debt in rupee terms where borrowing is in foreign currency. In situations where the higher import cost is passed on to the consumers, it would also contribute to inflationary pressures. The impact of rupee depreciation on domestic consumers, however, is mitigated to a large extent as the pass through of higher cost of imported items to the domestic market has been limited in view of the still substantial subsidy outgo on products like diesel, LPG, kerosene, fertilizer etc. Headline WPI inflation has remained at moderate levels in recent months and was at 4.86 per cent in June 2013. Non food manufacturing inflation (a proxy for core inflation) was 2.02 per cent in June 2013.

A number of steps have been taken to moderate demand of non- essential imports on April 12, 2013, enhance capital flows to augment supply of foreign exchange and curb speculation in the foreign exchange market to stem the rupee depreciation. Further, the Government has taken several steps to revive economic growth that, inter alia, include measures to speed up project implementation via the creation of the Cabinet Committee on Investment (CCI); boost to infrastructure financing by encouraging Infrastructure Debt Funds, enhancement of credit to infrastructure companies; provision of greater support to Micro, Small & Medium Enterprises (MSMEs); strengthening of financial and banking sectors, etc. Initiatives by the Government also include liberalisation of FDI norms in several sectors including telecom; deregulation of the sugar sector; launch inflation indexed bonds to incentivize households to save in financial instruments; fiscal consolidation through fiscal reforms viz. reduction in the subsidy of diesel, cap on the number of subsidised LPG cylinders; new gas pricing guidelines, etc.