

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1832

ANSWERED ON:16.08.2013

VALUE OF RUPEE

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Will the Minister of FINANCE be pleased to state:

- (a) whether Government's attention has been drawn to the sharp depreciation of rupee against US dollar over the last few months;
- (b) if so, the details and reasons of the rupee depreciation from January to July this year and the details of rupees equation with currencies of other countries during the same period;
- (c) the likely impact of the said depreciation on the Indian economy, common man, foreign exchange, foreign loan and foreign trade;
- (d) whether any consultations have been held with various stakeholders in this regard;
- (e) if so, the details and the outcome thereof; and
- (f) the other corrective/preventive steps taken/proposed to be taken by the Government in this regard?

Answer

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

(a) & (b) The monthly exchange rate of the rupee depreciated by 9.1 per cent from Rs.54.32 per US dollar in January 2013 to Rs.59.78 per US dollar in July 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 details of the monthly average exchange rate of the rupee against major currencies between January 2013 to July 2013, month wise, are in the table below:

Monthly average exchange rate (Rupee per foreign currency)

Month	US#	Pound Sterling	Euro	Japanese Yen##
1	2	3	4	5
January 2013	54.32	86.89	72.13	61.18
February 2013	53.77	83.35	71.87	57.80
March 2013	54.40	82.02	70.60	57.44
April 2013	54.38	83.20	70.77	55.71
May 2013	55.01	84.11	71.38	54.51
June 2013	58.40	90.47	77.07	59.99
July 2013	59.78	90.78	78.20	60.00

Per 100 Yen; Source: Reserve Bank of India.

(c) 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.

(d) to (f) Consultations with key stakeholders is an ongoing process in calibrating policy responses to emerging economic developments. A number of measures have been taken by the Government to contain the CAD, to reduce volatility in the currency market and to stabilize the rupee. These, inter alia, include compression in import of gold and silver and non essential items, public sector financial institutions to raise quasi-sovereign bonds to finance long term infrastructure, liberalising ECB guidelines, PSU oil companies to raise additional funds through ECBs and trade finance, and liberalising NRE/FCNR deposit schemes, RBI's intervention in the foreign exchange market, and liberalising FDI.