GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1328
ANSWERED ON:18.07.2014
IMPACT OF DEVALUATION OF RUPEE
Pal Shri Jagdambika

Will the Minister of FINANCE be pleased to state:

(a)whether the devaluation of Indian Rupee has adversely affected the overall growth of the country and the performance of Indian Companies involved in foreign trade;

(b)if so, the details thereof including the impact of devaluation in Indian Rupee on economic growth of the country including on foreign trade and the performance of Indian companies; and

(c)the specific steps taken/being taken by the Government to address the issue?

Answer

FINANCE MINISTER (SHRI ARUN JAITLEY)

(a) and (b): The overall growth rate of an economy is dependent on many factors that, inter-alia, include the rate of capital formation and savings, utilization of technology, availability of infrastructure, efficiency of resource allocation, quality of institutions, governance and the policy framework in place. The devaluation/depreciation of the currency generally does not impact economic growth directly. It can indirectly impact economic growth through an effect on exports and imports. In view of this, it is difficult to arrive at the precise estimate of the impact of depreciation of Rupee on economic growth. Depreciation can boost certain sectors as exports of Indian companies become cheaper in the international market. On the other hand, imports become dearer which can constrain output in certain sectors/companies which are highly dependent on imported inputs. Depreciation may also have adverse implications for domestic entities with foreign currency debt component in their balance sheets, particularly, if foreign currency liabilities are not adequately hedged. There is no one-to-one direct relationship between depreciation of the rupee and exports and imports of the country, as can be seen from the following table.

Year	Exchange rate of Rupee with US dollar	(+)Appreciation/ (-)Depreciation	Growth of exports	Growth of imports
		(In per cent)		
2011-12	47.9	(-) 4.9	21.8	32.3
2012-13	54.4	(-) 11.9	(-) 1.8	0.3
2013-14	60.5	(-) 10.1	4.1	(-) 8.3

(c) The exchange rate policy 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 the exchange rate movements over a period in an orderly manner. The Government of India and Reserve Bank of India (RBI) have taken a number of steps to augment supply of foreign exchange and to curb speculation in the foreign exchange market to stem the rupee depreciation witnessed during July-September 2013. These measures, inter alia, included: measures aimed at curbing gold imports; liquidity tightening measures to stabilise currency market; opening of a forex swap window by the RBI to meet the entire daily dollar requirements of three public sector oil marketing companies; incentivizing banks to mobilize fresh FCNR (B) deposits from non-residents and swap directly with the RBI; and, measures to moderate foreign currency outflows.