GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3364
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IMPACT OF RUPEE DEPRECIATION ON PRICE RISE
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Will the Minister of FINANCE be pleased to state:

(a)the reasons for failure of Indian rupee to remain stable against dollar; and

(b)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 (SHRIMATI NIRMALA SITHARAMAN)

(a) The sharp depreciation that occurred in the exchange rate of the rupee in the period June to September 2013 owed to the elevated level of current account deficit (CAD) till the first quarter of 2013-14 and the volatility of foreign institutional investors inflows reflecting the market reaction to the US Federal Reserve announcement in May 2013 about its intent to begin the rollback of its quantitative easing or asset purchase programme. The Government and Reserve Bank of India (RBI) took a series of measures aimed at containing the CAD and augmenting the supply of foreign exchange to stem the rupee depreciation. These inter alia include: compression in import of gold and silver and non-essential items including through hike in customs tariffs and other limits; liberalization of norms for foreign direct investment in select sectors, move to raise diesel prices periodically in small doses, RBIs liquidity tightening measures to stabilize currency market etc. The rupee gradually stabilised. The level and depreciation of the annualized average exchange rate of the rupee against US dollar during 2011-12 to 2013-14 and April-June 2014 are as follows:

Rupee Exchange Rate Movement

Period (RBI Reference Rate)	Rs. /US$	(+) Appreciation / (-) Depreciation in per cent
2011-12	47.9	-4.9
2012-13	54.4	-11.9
2013-14	60.5	-10.1
2014-15 (April-June)	59.8	1.2

The stability in the exchange rate and moderation of CAD to sustainable levels even when the US Federal Reserve has actually rolled back significantly its asset purchases reflects the positive impact of the steps taken by Government and RBI. The Budget for 2014-15 announced that the policy on foreign direct investment (FDI) seeks to promote such investment selectively in sectors where it helps the larger interest of the Indian economy. Accordingly, the Budget seeks encourage FDI in defence manufacturing, insurance, habitation development for smart cities and low cost affordable housing and permitting manufacturing sector (already under automatic route) to sell its products through retail or e-commerce platforms. Further, to boost exports, the Budget for 2014-15 proposes an Export Promotion Mission to bring all stakeholders under one umbrella to facilitate exports through improved infrastructure and coordinated efforts.

(b) As far as the impact on the price rise is concerned, it depends on the extent of pass-through of international commodity prices to the domestic market. Depreciation of rupee can help in correcting trade imbalances as exports become cheaper and imports become dearer. Some empirical estimates suggest that 10 per cent depreciation in exchange rate could increase the wholesale price index inflation by about 1.0 percentage point. The exchange rate policy of the RBI is guided by the broad principles of careful monitoring and management of exchange rate movements over a period in an orderly manner and intervention in the foreign exchange market is aimed at reducing excess volatility, preventing the emergence of destabilizing speculative activities, maintaining adequate level of reserves. The Government closely monitors the emerging global economic situation and calibrates appropriate policy responses to cope with it.