

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2528
ANSWERED ON:25.07.2014
CURRENT ACCOUNT DEFICIT AND VALUE OF RUPEE
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Will the Minister of FINANCE be pleased to state:

- (a) whether the widening of the current account deficit hurt the rupee and if so, the details thereof;
- (b) whether the Government has taken any steps to strengthen the rupee;
- (c) if so, the details thereof and achievements therefrom for the last three years and the current year, and
- (d) the details of measures taken by the Government in the matter?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SMT NIRMALA SITHARAMAN)

(a) to (c) The value of currency depends on a number of factors and the level of the current account deficit is one such important factor. The sharp depreciation that occurred in the exchange rate of the rupee in the period June to September 2013 owed not only to the elevated level of CAD but also to the volatility of foreign institutional investors flows 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 took a series of steps to strengthen the rupee in August 2013 and the rupee gradually stabilised. The details of India's CAD as percentage of GDP and exchange rate of rupee against major international currencies in the last three years are as follows:

Year	CAD as percentage of GDP	US Dollar	Pound Sterling	Euro	Japanese Yen`
2011-12	4.2	47.92	76.38	65.88	60.73
2012-13	4.7	54.41	85.98	70.07	65.85
2013-14	1.7	60.50	96.30	81.17	60.40

Source: RBI. #annual average. ` per 100 Yen

No data on CAD for the current financial year is available. During 2014-15, the monthly average exchange rate of the rupee was Rs. 60.32 per US Dollar in April, 2014, Rs. 59.31 per US dollar in May, 2014 and Rs. 59.73 in June 2014.

(d) The Government and Reserve Bank of India (RBI) have taken a number of measures that 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, RBI's liquidity tightening measures to stabilize currency market etc. 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 to promote FDI 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.