

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:390
ANSWERED ON:19.12.2014
DEVALUATION OF RUPEE
Patil Shri Kapil Moreshwar

Will the Minister of FINANCE be pleased to state:

- (a) the value of the Indian rupee against the US dollar during each of the last three years and the current year;
- (b) the effect of the devaluation of the rupee on each of the economic sectors and on the credit rating of the country;
- (c) the reasons for the continuous slide in the value of the rupee; and
- (d) the steps taken/being taken by the Government to deal with the said situation?

Answer

FINANCE MINISTER (SHRI ARUN JAITLEY)

(a) to (d): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO.390 BY SHRI KAPIL MORESHWAR PATIL REGARDING DEVALUATION OF RUPEE FOR ANSWER ON DECEMBER 19, 2014

(a) The average annual exchange rate of the rupee depreciated from Rs.47.9 per US dollar in 2011-12 to Rs. 54.4 per US dollar in 2012-13 and further to Rs. 60.5 in 2013-14. Rupee had depreciated to its lowest level of Rs.68.4 per US dollar on August 28, 2013. The rupee gained strength gradually and stabilized in a narrow range subsequently on the impact of measures taken by the Government and the RBI to contain current account deficit and boost capital flows. As on December 15, 2014, exchange rate of the rupee against the US dollar stood at Rs. 62.65 (Table 1). The decline in the rupee in the last few days is due in part to the turmoil in Russia.

Table 1: Exchange rate of the rupee (Rs. per US\$)

Month	2011-12	2012-13	2013-14	2014-15
April	44.37	51.80	54.38	60.36
May	44.90	54.47	55.01	59.31
June	44.85	56.03	58.40	59.73
July	44.42	55.49	59.78	60.06
August	45.28	55.56	63.21	60.90
September	47.63	54.61	63.75	60.86
October	49.26	53.02	61.62	61.34
November	50.86	54.78	62.63	61.70
December	52.68	54.65	61.91	62.07#
January	51.34	54.32	62.08	
February	49.17	53.77	62.25	
March	50.32	54.40	61.01	
Yearly Average	47.92	54.41	60.50	60.70##

#: Up to December 15, 2014 ##: Up to April-December 15, 2014

(b) and (c) This year, although the rupee declined in value against the dollar, it has become stronger against other currencies. And when considered against the currencies of all trading partners, the rupee has become stronger not weaker. In fact, between January and October, the rupee has become stronger by 3.7 percent. The reason is that although the rupee declined against the dollar, the dollar strengthened against all the major currencies because growth is stronger in the US. The other reason is that the new Government and its actions have improved investor sentiment, resulting in greater inflows of capital which has strengthened the rupee. In fact, from the perspective of how competitive the Indian economy is, the rupee has become considerably stronger this year by about 6.4 percent against all our trading partners; of this 2.7 percent is due to higher Indian inflation and the rest because of strong capital inflows.

It is the impact on the economy of this strengthening, not devaluation, that has to be considered. When the rupee becomes stronger, Indian exports for some sectors become less competitive in international markets. Similarly, imports become cheaper putting

pressure on domestic producers of manufacturing goods.

Table 2: Movements in Selected Exchange Rates/Indices

Year (Rs. per 100 Yen) (Base: 2004-05)	Japanese Yen	Euro (Base: 2004-05)	NEER (Trade-based 36 currency)	REER (Trade-based 36 currency)
2011-12 (Average)	60.73	65.88	87.4	110.3
2012-13 (Average)	65.85	70.07	78.3	105.6
2013-14 (Average)	60.40	81.17	72.3	103.3
2014-15				
Jan-14	59.7	84.6	71.1	102.8
Feb-14	61.0	85.0	70.8	102.0
Mar-14	59.7	84.4	71.9	103.8
Apr-14	58.85	83.35	72.8	104.6
May-14	58.28	81.49	74.1	107.1
Jun-14	58.53	81.24	73.7	107.1
Jul-14	59.07	81.39	73.4	108.3
Aug-14	59.17	81.14	72.7	108.2
Sep-14	56.76	78.60	73.6	109.1
Oct-14	56.87	77.91	73.7	109.1
Nov-14	53.05	76.98	74.3	110.0

Note: Increase in NEER/REER index over the previous period indicates appreciation (i.e. strengthening) and vice-versa

Source: Reserve Bank of India

Sovereign Credit Rating Agencies take into account a number of factors and India's rating has remained fairly consistent notwithstanding the elevated levels of the current account and fiscal deficits in 2011-12 and 2012-13. There has been some improvement in the outlook for the Indian economy by some agencies. India enjoys investment grade rating and recently two agencies have revised upwards the outlook for India.

(d) There were a series of measures taken by Government and RBI in August-September 2013 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, RBI's liquidity tightening measures to stabilize currency market etc. Recent measures taken by the Government to decontrol diesel prices, the fall in global prices of crude petroleum and the liberalization of FDI augur well for keeping the CAD at lower levels which can be financed by improved capital flows assuring external stability. However, the recent strengthening of the rupee will affect our exports which will need to be watched with caution.