GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA
UNSTARRED QUESTION NO. 683
TO BE ANSWERED ON DECEMBER 13, 2022

DECREASE IN FOREX RESERVE DUE TO DEVALUATION OF RUPEE

683. Shri Ram Nath Thakur:

Will the Minister of FINANCE be pleased to state:

(a) the details of the significant steps taken by Government to prevent the perpetual devaluation of Indian Rupee in the last one year;
(b) the decrease occurred in India's foreign exchange reserve due to rising value of US Dollar during the last two years; and
(c) the commodities in the country whose prices soared due to rising value of US Dollar against Indian Rupee?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) The value of the Indian Rupee is market-determined. As global spillovers from geo-political tensions and aggressive monetary policy tightening across the world intensified alongside a surge in crude oil prices, the US dollar strengthened by 7.8% in the financial year (till November 30, 2022). While the Rupee has witnessed a depreciation of 6.9% in the current financial year till November 30, 2022, it has performed better than most Asian peer currencies, including the Chinese Renminbi (10.6%), Indonesian Rupiah (8.7%), Philippine Peso (8.5%), South Korean Won (8.1%), Taiwanese Dollar (7.3%) etc during the financial year.

The Reserve Bank of India (RBI) closely monitors the foreign exchange markets and intervenes only to maintain orderly market conditions by containing excessive volatility in the exchange rate, without reference to any pre-determined target level or band.

The RBI had announced various measures in the recent period to diversify and expand the sources of forex funding to mitigate exchange rate volatility and dampen global spillovers. Some of these measures are:

- Incremental Foreign Currency Non-Resident (Bank) [FCNR(B)] and Non-Resident (External) Rupee (NRE) deposit liabilities were exempted from the maintenance of cash reserve ratio (CRR) and statutory liquidity ratio (SLR) for deposits mobilized up to November 4, 2022.
- Fresh FCNR(B) and NRE deposits were exempted from the extant regulation on interest rates (i.e. interest rates shall not be higher than those offered by the banks on comparable domestic rupee term deposits) till October 31, 2022.
- Further, the regulatory regime relating to foreign portfolio investments in debt flows has been revised to encourage foreign investment in Indian debt instruments.
- The external commercial borrowing limit (under automatic route) has been raised to US$1.5 bn and the all-in-cost ceiling has been raised by 100 basis points in select cases up to December 31, 2022.
- Authorized dealer Category 1 Banks can utilize overseas foreign currency borrowing for lending in foreign currency to end use prescriptions as applicable to external commercial borrowings.
- To promote the growth of exports from India and to support the increasing interest of the global trading community in the Indian Rupee, RBI has put in place an additional arrangement for invoicing, payment, and settlement of exports/imports in INR on July 11, 2022.

(b) The Foreign Exchange Reserves of the country which stood at US$ 574.82 billion as on November 27, 2020, have decreased to US$ 550.14 billion as on November 25, 2022. The decrease can be predominantly attributed to revaluation changes arising out of the appreciation of the US Dollar vis-a-vis other foreign currencies like the Euro, Japanese Yen, British Pound etc. as well as due to rising yields of foreign securities.

(c) Exchange rate depreciation, other factors remaining unchanged, is likely to put upward pressure on prices of imported commodities as a result of imported items becoming costlier. The overall impact on the domestic prices depends on the pass-through of import prices into the domestic prices. However, the nominal exchange rate is only one factor that determines the cost of imports, which also depends on various factors including the demand and supply of commodities in the international market, availability of substitute goods etc. Thus, the impact of movements of the exchange rate on the rise in prices of certain imported goods cannot be isolated.

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