

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA
UNSTARRED QUESTION NO. 722
TO BE ANSWERED ON DECEMBER 13, 2022

FALL OF INDIAN RUPEE AGAINST US DOLLAR

722 Dr. Ameer Yajnik:

Will the Minister of FINANCE be pleased to state:

- (a) whether it is a fact that the Indian Rupee is continuously falling and has reached a record low against US Dollar;
- (b) if so, whether it will not happen that as the Rupee continues to depreciate, the Current Account Deficit (CAD) will continue to widen to record levels leading to inflation in the economy; and
- (c) the reasons for the devaluation of Indian Rupee against US Dollar and the concrete plans of Government to control the situation?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

- (a) The Indian Rupee has witnessed a depreciation of 6.9% in the current financial year till November 30, 2022.
- (b) 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. On the other hand, exchange rate depreciation is likely to enhance the country's export competitiveness. However, the nominal exchange rate is only one factor that determines the export competitiveness and cost of imports and hence the overall trade balance. Hence, the impact of movements of the exchange rate on the trade balance and also on other components of the current account balance cannot be isolated.
- (c) The value of the Indian Rupee is market-determined. As global spillovers from geopolitical 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 depreciated in the current financial year, 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.
