

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA
UNSTARRED QUESTION NO. 887
ANSWERED ON JULY 30, 2024

DEPRECIATION OF INDIAN RUPEES AGAINST DOLLAR

887 Shri Sandeep Kumar Pathak:

Will the Minister of FINANCE be pleased to state:

- (a) the reasons for the depreciation of Indian rupees against the US dollar;
- (b) details of assessment reports of the good or bad impact of this depreciation on the Indian economy;
- (c) the response of Government considering this depreciation;
- (d) the steps that have been taken by Government to prevent depreciation in the last three years; and
- (e) how many official meetings of the Finance Minister have taken place with the Prime Minister on the issue of depreciation of Indian rupees in the last 3 years?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) Various domestic and global factors influence the exchange rate of the Rupee (INR), such as movement of the Dollar index, trend in capital flows, level of interest rates, movement of crude oil prices, current account deficit etc. One of the main reasons for the depreciation of INR against US dollar during the current calendar year has been strengthening of US dollar. During the current calendar year, INR has been one of the best performing Asian currencies, having depreciated by 0.6% against the US dollar (as on July 24, 2024). Other major Asian currencies like the Japanese Yen and South Korean Won have declined by 8.4% and 6.7% respectively against the US dollar (as on July 24, 2024). During the same period, the Dollar index has strengthened nearly 3.0% while all G10 currencies except British Pound have weakened more than 1% against the US Dollar. Further, Brent crude prices have risen more than 6% in 2024 (as on July 24, 2024), accentuating pressure on INR.

Despite the global headwinds, the relative stability of the INR bears testimony to India's sound and resilient economic fundamentals, macroeconomic and financial stability.

(b) and (c): Nominal exchange rate is only one of the factors that impact an economy. The depreciation of currency is likely to enhance the export competitiveness which in turns impacts the economy positively. On the other hand, depreciation may raise the prices of imported good. However, the overall impact of exchange rate depreciation on domestic prices depends on the extent of pass through of international commodity prices to the domestic market. Furthermore, the imports in the economy also depends on various factors including the demand and supply of commodities in the international market, kind of tradeable (i.e. essential or luxury items), freight costs, availability of substitutes goods etc. Thus, the impact of movement of the exchange rate on the economy cannot be isolated.

(d) Exchange rate of Indian rupee is market determined. RBI intervenes only to curb excessive volatility in the foreign exchange market and to maintain orderly conditions therein without targeting any specific level of the exchange rate.

The RBI has announced various measures in the last three years to diversify and expand the sources of forex funding to mitigate exchange rate volatility and dampen global spill overs. 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 and Statutory Liquidity Ratio for deposits mobilised up to November 4, 2022. Fresh FCNR(B) and NRE deposits were exempted from the extant regulation on interest rates (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 FPI investment in debt flows has been revised to encourage foreign investment in Indian debt instruments. The External Commercial Borrowing limit (under automatic route) was raised to \$1.5 bn and the all-in-cost ceiling was raised by 100 bps in select cases up to December 31, 2022. AD Cat-I banks could utilise overseas foreign currency borrowing for lending in foreign currency to end use prescriptions as applicable to external commercial borrowings. Further, the RBI has also been intervening in the forex market to stem the depreciation of INR.

(e) Various issues related to the state of the economy and movement of economic indicators, such as exchange rate of the Rupee, are discussed at various forums at various levels of the Government.
