GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA
UNSTARRED QUESTION NO. 878
TO BE ANSWERED ON 03.12.2024

FACTORS CAUSING RUPEE DEPRECIATION

878 Smt. Phulo Devi Netam:

Will the Minister of FINANCE be pleased to state:

(a) whether Government has analysed the factors contributing to the recent decline in the Indian Rupee, and if so, the key findings of this analysis;
(b) the steps being taken by Government to attract stable foreign investment amidst currency depreciation;
(c) whether Government has evaluated the impact of the Rupee's depreciation on inflation, import costs, and the purchasing power of Indian consumers and if so, the details thereof; and
(d) the steps Government is taking to stabilise the Rupee and mitigate any adverse effects on the economy and consumers?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) The value of the Indian Rupee (INR) is market-determined, with no target or specific level or band. Various domestic and global factors influence the exchange rate of the INR, such as the movement of the Dollar Index, trend in capital flows, level of interest rates, movement in crude prices, current account deficit etc.

During the current calendar year (CY) 2024, the INR depreciated by 1.4% till November 19, 2024 against the US dollar (USD). One of the main reasons for this depreciation of INR has been broad-based strength of the USD. During CY 2024, Dollar Index has increased by about 4.8% till November 19, 2024. More recently, the Dollar Index touched 108.07 on November 22, 2024, its highest in more than a year, exerting pressure on emerging market currencies. Further, geopolitical tensions in the Middle East and uncertainty surrounding US elections results also added to the headwinds.

Despite this, INR remains one of the best-performing Asian currencies. In comparison, major Asian currencies like the Japanese Yen and South Korean Won declined by 8.8% and 7.5%, respectively, as on November 19, 2024. Notably, all G10 currencies, except the British Pound (GBP), depreciated by over 4.0% during CY 2024.

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

(b) Foreign investment inflows are based on private business decision which in turn depend on a whole host of exogenous factors like market size, macroeconomic stability, investment climate, geopolitical factors, and other global economic factors.

To promote foreign direct investment (FDI), the Government has put in place an investor friendly FDI policy, wherein most of the sectors, except a small negative list, are open for 100% FDI under the automatic route. Further, the policy on FDI is reviewed on an ongoing basis, to ensure that India remains an attractive and investor friendly destination.

Further, the Union Budget 2024-25 has announced simplification of rules and regulations for FDI to facilitate such investments and reduction in the corporate tax rate for foreign companies.

In addition, the Reserve Bank of India (RBI), in consultation with the Government has been taking measures to provide a facilitative environment for foreign investment in debt including measures to expand investment space and provide operational flexibility.

(c) 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 import cost and hence on domestic inflation and consumer’s purchasing power cannot be isolated.

(d) The RBI monitors key developments across the globe which may have an impact on USD-INR exchange rate. Among others, it includes monetary policy actions of the major Central Banks, major economic data releases across the globe and their impacts thereof, OPEC+ meeting decisions, tracking, and analysing geo-political events, daily movements in G-10 and EME currencies etc. RBI regulates the foreign exchange market with a view to ensure its orderly functioning and development and intervenes only to curb undue volatility in the INR.

******