

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 726
TO BE ANSWERED ON DECEMBER 14, 2018

DEVALUATION OF INDIAN RUPEE

726. SHRI K. C. VENUGOPAL :
SHRI T. G. VENKATESH BABU :

Will the Minister of FINANCE be pleased to state:

- (a) whether there is a great fall/unprecedented devaluation in the value of Indian rupee during the last few months resulting in pressure in foreign trade;
- (b) if so, the details thereof and the reasons for instability of Indian rupee in comparison to dollar and other major currencies;
- (c) whether the Government has identified any reasons behind such a recurring process of devaluation and assessed the economic impact of such drastic devaluation, if so, the details thereof;
- (d) the details of effects of fall in prices of Indian currency on the prices of essential commodities and specific steps taken in this regard; and
- (e) the steps, if any, taken by the Government to check the fall in the prices of rupee and the effects thereof?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PON. RADHAKRISHNAN)

(a) to (c) The average exchange rate of rupee to US dollar during H1 (April-September) in 2017-18 was 64.37, which depreciated by 6.1 per cent in H1 of 2018-19 to 68.57. Trade Deficit as per cent of GDP increased to (-) 7.3 per cent in H1 of 2018-19 as compared to (-) 6.2 per cent in H1 of 2017-18, indicating a deterioration in trade balance by 1.1 percentage points. The recent episode of depreciation of the rupee vis-a-vis US\$ can be mainly ascribed to adverse global developments viz increase in the prices of crude oil in the international market, escalation of protectionist sentiments in some countries; rising interest rate and balance-sheet normalisation by the US Fed along with expansionary fiscal policy in the United States. These factors, among others, led to the strengthening of US\$ vis-à-vis a large number of currencies, including the Indian rupee.

The depreciation of Indian Rupee with respect to other major currencies in H1 of 2018-19 over H1 of 2017-18 is shown below:

Table: Depreciation of Indian rupee vis-à-vis other currencies in H1 of 2018-19 over H1 of 2017-18

Major Currencies	Depreciation (in percent)
US Dollar	-6.1
Pound Sterling	-8.8
Euro	-9.3
Japanese Yen	-6.7

Source: RBI, FBIL Reference Rate

(d) The Wholesale Price Index increased by 4.7 percent during H1 of 2018-19 as compared to 2.5 percent in H1 of 2017-18. This may have been due to several factors, and depreciation of the rupee could be one of them.

(e) The exchange rate of the rupee is market determined. The Reserve Bank of India (RBI), however, intervenes in the domestic foreign exchange market to manage excessive volatility and maintain orderly conditions without having any fixed target or band for the exchange rate. The RBI will continue to monitor the evolving situation and take appropriate steps to bring stability during periods of forex market volatility.
