

FinMin expects falling rupee to make exports competitive

Ministry says other currencies have declined more, giving the Indian unit the edge

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The US dollar has strengthened by over 25 per cent against the rupee in the last eight years, data provided by the Finance Ministry in the Lok Sabha reveals. Meanwhile, the Ministry said depreciation of the rupee is expected to boost export competitiveness, though imports would also get costlier.

According to data sourced from the Reserve Bank of India, the exchange rate of the INR against USD was 63.33 on December 31, 2014, which touched 79.41 on July 11, 2022. During the current calendar year till date, USD has strengthened by about 7 per cent.

Global factors

The data is part of a written answer given by Finance Minister



Nirmala Sitharaman on Monday. Giving reasons for the fall in rupee, she said: "Global factors such as the Russia-Ukraine conflict, soaring crude oil prices and tightening of global financial conditions are the major reasons for the weakening of the INR against the USD. Currencies such as the British pound, the Japanese yen and the euro have weakened more than the Indian rupee against the US dollar and, therefore, the Indian rupee has strengthened against these currencies in 2022."

The Indian stock markets have seen a strong outflow of foreign portfolio investment and it is one of the major reasons for the

weakening of the rupee. In the current fiscal (from April 1 till date), FPIs have withdrawn around \$14 billion, due mainly to rising interest rates in the US.

Sitharaman said the nominal exchange rate is only one of the factors that impacts an economy. "The depreciation of a currency is likely to enhance export competitiveness which, in turn, impacts the economy positively. The depreciation also impacts imports, by making them more costly," she said, while adding that the RBI regularly monitors the foreign exchange market and intervenes in situations of excess volatility.

She also listed measures to

check the slide of the rupee. In recent months, the RBI has raised interest rates to increase the attractiveness of holding Indian rupees for residents and non-residents. For this, the RBI exempted Incremental Foreign Currency Non-Resident (Bank) [FCNR(B)] and Non-Resident (External) Rupee (NRE) deposits from the maintenance of CRR and SLR up to November 4, 2022. Also, fresh FCNR(B) and NRE deposits have been exempt from the extant regulation on interest rates, to allow banks to provide higher interest rates till October 31, 2022, as compared to domestic rupee term deposits, with a view to attract foreign currency deposits.

The external commercial borrowing limit (under automatic route) has been raised to \$1.5 billion and the all-in-cost ceiling by 100 bps in select cases up to December 31, 2022. Further, banks in the Authorised Dealer Category-I have been allowed to utilise overseas foreign currency borrowing for lending in foreign currency to entities for a wider set of end-use purposes, subject to the negative list set out for external commercial borrowings.