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India is facing a peculiar problem where there are large inflows of foreign exchange due to massive foreign investment in the country which in turn leads to appreciation of the currency, undermining the traditional export industries. The Indian rupee has appreciated by nearly 10% against the US dollar since late 2006 suggesting the country's attractiveness to foreign investors and optimism about the Indian economy.



Indian rupee appreciation is assessed to have been caused by withdrawal of RBI intervention on purchase of US dollars from April 2007 onwards to moderate inflationary tendency and slow down of US economy leading to depreciation of its dollar.

Currency appreciation has led to a two prolonged effect on the external sector. First, imports have become cheaper. In April, 2007, import of wheat, pulses and other essential commodities went up by 54.29%. This would enable the Government to reduce the subsidy burden where imported essential products are cheaper than domestic products and also reduce the prevailing inflation rate. The gross import of all commodities during April - May, 2007 was Rs.1,48,054 crore as compared to Rs.1,21,305 crore during the same period last year. Domestic prices of cellular telephone handsets have declined as the import cost softened.

Second, currency appreciation has made exports costlier. Goods and services produced in domestic market have become expensive in foreign markets, thereby making it more difficult for exporters to compete against other origins. The appreciating rupee has hurt growth in exports which has come-down to 14% in June from 23% in April, 2007.

While agreeing that the rupee appreciation is currently a major problem, Shri Kamal Nath, Minister of Commerce and Industry exhorted the exporters to look at it as an opportunity to enhance their competitiveness and look at new markets and move towards greater efficiency. To mitigate the immediate problem, the Minister announced a Rs.1400 crore export relief package on 13.7.2007. The package seeks to benefit the employment intensive sectors such as textile, leather and small and medium enterprises to certain extent. The export sectors which have not been extended the benefits of the package have now demanded for inclusion. The department of Commerce, FIEO, FICCI, CRISIL, ASSOCHAM, Prime Minister's Economic Advisory Council (EAC) and various Export Promotion Councils/Commodity boards which have studied the impact of currency appreciation on the different segments of exporting community suggested that the rupee reduction measures announced earlier are not adequate to restore the falling margins of exporters. EAC pointed out that it would be difficult to achieve the fixed export target of US\$ 160 billion for the current fiscal in view of ongoing appreciation of rupee.

Shri Kamal Nath said that strengthening rupee could prevent from achieving US\$ 160 billion export target for the year 2007-08 and stated that government is thinking of another package of incentives for exporters hit by the hardening rupee. The additional relief package of export is expected by August end.

I am happy to say that Federation has published a comprehensive article on the appreciation of rupee and its impact on exports in this issue. It is informative and useful. I hope the members, especially exporters may get an insight into various aspects of currency appreciation.

Before I conclude, I thank you all for your cooperation.

Atluri Subba Rao



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