IAS PARLIAMENT
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Causes for Weakening Rupee

What is the issue?

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- The rupee is on a continuing weakening trend against the dollar in the recent days.
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- A closer look reveals that apart from crude imports, several other imports are playing a significant role in this regard.
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What is the recent development?

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- The global crude prices are on an increasing trend.
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- Resultantly, the value of petroleum and crude imports jumped almost 25% from 2017 to 2018.
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- It thereby led to an increase in the CAD from 0.6% of the GDP to 1.9%.
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- It is estimated that the CAD may rise to levels of around 2.8%-3% of the GDP in FY19.
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- This is in turn leading to a pressure on the rupee.
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- Notably, this happens alongside a slower growth rate of exports.
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- But besides, several other items imported by India are also playing a crucial role.

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What is the changing imports trend?

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- The import basket shows that crude might not be the only one disturbing the equilibrium.
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- **Coal** - The value of imports of coal and coke jumped nearly 45% from 2016-17 to 2017-18.
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- This rise is in line with the decline in growth rates of coal production in India.
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- Notably, the growth in raw coal production of Coal India Ltd (CIL) has slid over the last three years.
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- It has failed to keep pace with surging demand on account of higher electricity generation.
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- Resultantly, utilities are facing coal shortage at some plants.
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- Bottlenecks in transporting coal from pitheads to power stations have worsened the situation.
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- Besides, demand for coking coal arises from its use in steel-making.
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- But there is a limited supply of high-quality coking coal (low-ash-coal) in the country.
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- Hence there is no option but to import coking coal, and coal imports are only likely to be much higher this fiscal.
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- **Others** - The value of imports of metaliferous ore and minerals rose nearly 47% in the same period.
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- Another major component has been pearls, precious and semi-precious stones, whose imports climbed 44%.
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- In all, the imports of coal and coke, metal and mineral, non-ferrous metal, and iron and steel rose nearly 73% of the jump in petroleum and crude imports.
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- Even gold imports, which had declined earlier, increased in the FY18.
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- **Electronic imports**, the second biggest component of India's import basket also increased around 23%.
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- It is to be noted that this is driven purely by demand and is irrespective of crude price rise.
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- Among the top import items, electronic goods are the only import component that has seen a year-on-year growth (in value terms) over the last three years.
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- It is thus felt that electronic imports are a major area of concern as far as the CAD is concerned.
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How is the exports side?

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- While imports have been rising steadily, export growth has slowed down drastically.
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- The total imports in FY18 amounted to around $460 billion, but the exports stood at around $300 billion.
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- India's imports rose 21% in FY18 over those in the previous year; however, the exports grew by only 9.98%.
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- The trade deficit has thus been widening over the years because of a skewed rate of growth.
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- The average annual export growth was just 0.6% between 2014 and 2018.
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- But the overall trade growth rate had been 25.4%, indicating the less contribution of exports.
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- Given this, the slack in exports could be the silent, unseen reason resulting in the rupee depreciation.

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Source: Indian Express

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